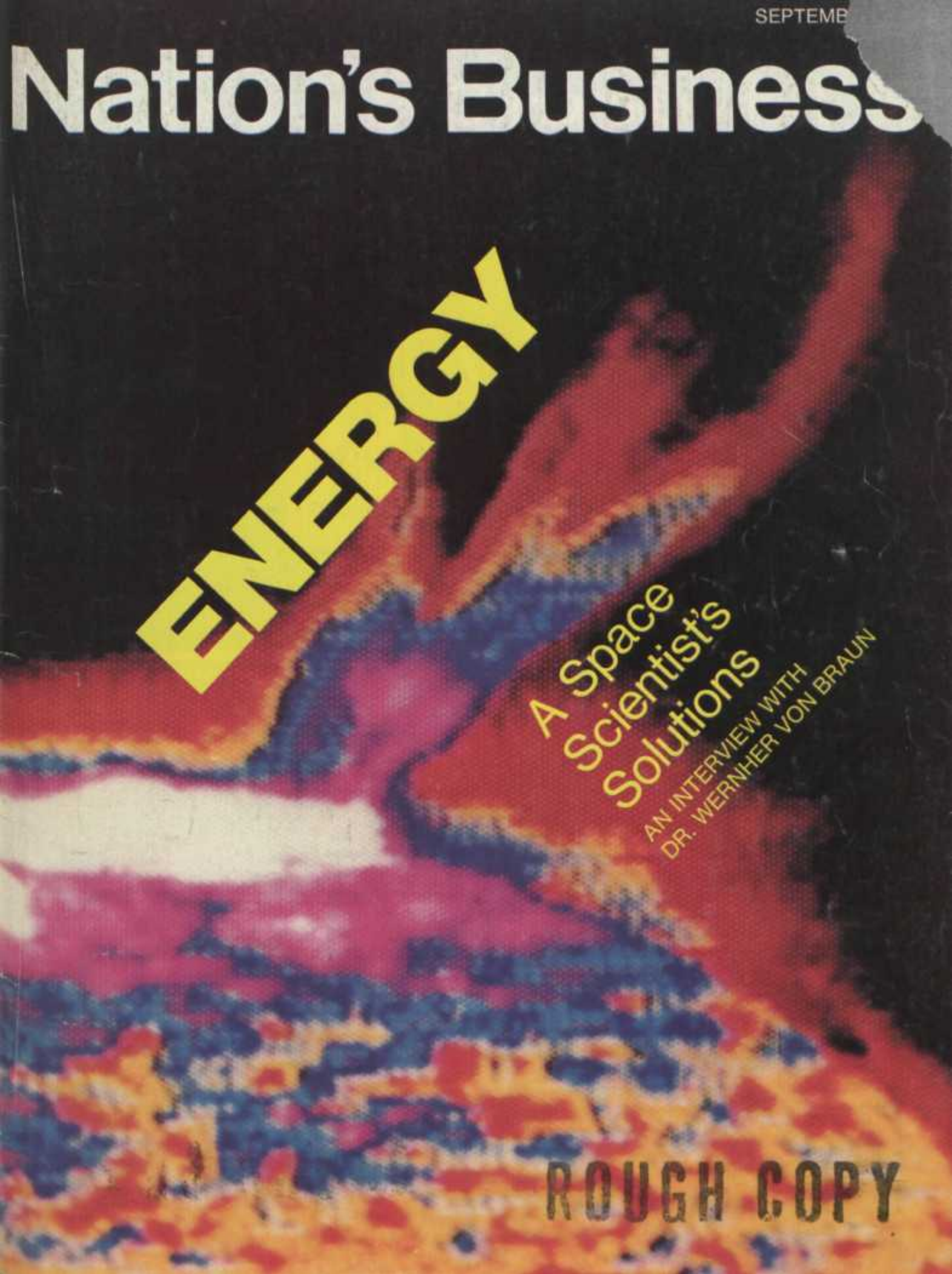
SEPTEMB

Nation's Business



ENERGY

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AN INTERVIEW WITH DR. WERNHER VON BRAUN

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Canada's Incredible Free Land Giveaway
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How to Get a Job as a Forest Ranger
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How to Hold Onto Your Auto Insurance
Recession-Proof Jobs
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How to Get a Low-Cost Fast Divorce
The Kinds of Cars that Mechanics Own
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Nation's Business

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Cover design by Hans Baum, from a NASA photo of an eruption of the sun. Streaming helium gases extend 350,000 miles.

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By JOHN COSTELLO
Associate Editor

Help in Planning Your Financial Future

Many businessmen are skillful at making money, but not at managing it.

That is the reason broad-based financial counseling firms were born.

"It is generally agreed," says Edwin E. Gatewood, Jr., president of Oakland Financial Group, Inc., Charlottesville, Va., "that this kind of financial counseling had its beginnings in the mid-1960's.

"Until then, executives got their personal financial analyses piecemeal, from a number of sources. For example, from an insurance man, an accountant, an attorney, or an investment counselor.

"The financial counseling firm integrates all of these disciplines."

Some firms and individuals offer counseling in the course of selling securities, tax shelter investments, or insurance. Others, such as Oakland Financial Group, derive their income solely from counseling fees.

Fees vary from firm to firm. Oakland Financial Group, for example, charges $3,000 and up for a full analysis.

Financial counseling firms offer estate planning, Mr. Gatewood says. That includes a look at wills, investments, insurance, tax structure, and any other aspect of the client's personal and business life that can affect his financial future.

Some corporations offer this service to executives as an extra benefit, says Robert E. Sibson, president of Sibson & Co., Inc., Princeton, N. J., management compensation consultants.

A common objective of those who seek broad-based financial counseling, says Mr. Gatewood, "is tax conservation. Another is providing for early retirement. Asset protection and estate planning for an individual's family are also common aims."

In the past three years, the number of financial counseling firms has dwindled. Among the survivors are such well-known firms as Hay Associates, Philadelphia, and Peat, Marwick, Mitchell & Co., New York.

The recession was a factor in the shakeout, industry spokesmen agree.

"More important," says Von R. Smith, senior analyst for Oakland Financial Group, "is the fact that the public has not accepted the idea of paying for advice that they believe they have been getting free.

"Actually, there is no free lunch. You pay for the advice via commissions of one kind or another on securities, insurance, and so on."

However, Mr. Smith sees the future as bright for financial counseling firms: "In time, I believe every executive will routinely sit down for a financial review of how he is handling his money."

Saving Time and Money When Moving

Don't panic if the boss promotes you and you have to move.

Moving need not be a headache.

Here is how to save time, money, and energy, says James P. Harley, head of the consumer appeals board of the Moving and Storage Industry of New York:

- Ask friends and business associates for the names of reliable movers.

Your company's personnel director may be able to help.

- Make sure the mover is licensed.

If your state regulates movers, query the transportation department



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or the public utilities commission. If your move is interstate, call the local office of the Interstate Commerce Commission.

- Get written estimates from several movers.

Show them everything to be moved and tell them what services, like packing, you want.

- Check to see if your insurance covers your household goods while in transit.

If not, get coverage. Remember, the mover's liability is normally fixed at 60 cents per pound on interstate trips. How much does that Ming vase weigh?

- Get rid of items of little value.

Moving them may cost more than they are worth.

- Pack separately important papers and other items of great personal or intrinsic value.

Don't put them on the van with the furniture. Carry them yourself.

- Keep one carton for things you will need at once in your new home.

Mark the carton: "Move last."

- Check immediately for loss or damage.

Ask the driver to note any loss or damage on the bill, so you can make a claim with the mover. If you do have a claim, file it promptly, in writing.

- To be billed later for the move or to pay by personal check, arrange with your mover in advance.

An individual making an interstate move may find this difficult. Under ICC rules, the mover can demand cash or its equivalent as soon as the trip is complete. Usually, he will, before he unloads the van.

Bring a certified check to cover the written estimate, plush cash to cover up to an additional ten percent. That is for unforeseen extra charges like overtime.

If the charges are more than ten percent above the estimate, ICC says, you can insist on a bill.

Another Law for the Businessman

If you focus too narrowly on your goal, you may not achieve it.

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trying to reach that goal can be zero.

This is called the Zero Principle, named and spelled out by P. Stanley Soderberg, president of Soderberg & Bell, a Seattle, Wash., marketing firm.

The Zero Principle, he says, "is a new law to fit in with Parkinson's Law and the Peter Principle. It is like a golfer who concentrates on his backswing to the total neglect of the rest of his swing. His divots get bigger and bigger, but that is all he does achieve."

It is the same way with profits, Mr. Soderberg says.

"In business, if you permit yourself to get totally zeroed in on making a profit, you will neglect those things which make a profit possible.

"You are not in business merely to make a profit. You are in business to fill needs.

"When you fill needs well, you generate income, and it is then your job to manage a profit."

How to Choose Your Broker

What would you tell someone who asked you how to select a broker?

Financial Marketing Services Corp. asked that question in a survey of stockholders. The survey was financed by Paine, Webber, Jackson & Curtis, a New York-based brokerage firm.

Here are the answers and the percentage of replies for each. Some of those polled offered more than one suggestion. Thus, the total exceeds 100 percent.

	Percent
Pick a large, well-known firm	28
Ask someone who is successful as an investor to recommend a broker	23
Interview several brokers	21
Select an experienced broker	19
Find a broker with a reputation for integrity	16
Pick someone you feel comfortable with	11
Check on services available	6
Compare commission rates	4
Ask a banker or lawyer to suggest a name	3

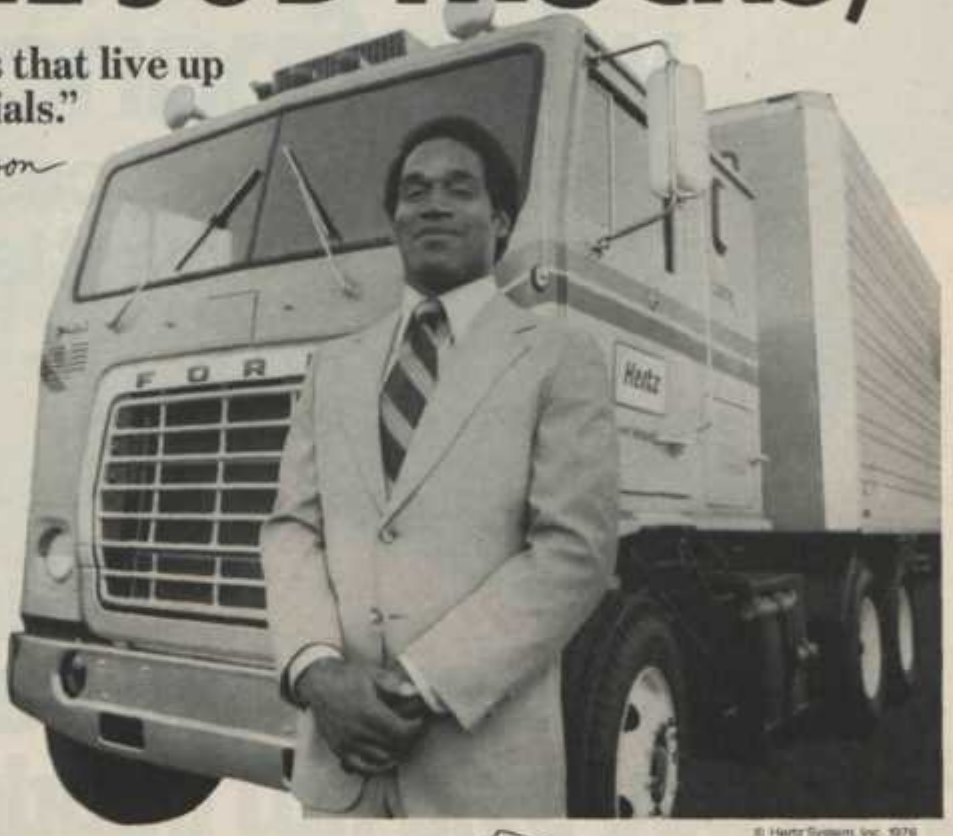
At the same time, many of these investors place little reliance on a broker's advice.

Asked if customers know as much about picking stocks as their brokers do, 48 percent said this is generally not true. Forty-seven percent said it is generally true. □

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LETTERS TO THE EDITOR

A Larger Role for Business

You point out in "Panorama of the Nation's Business" [July] that more and more corporations are using their annual reports to defend the American economic system and to protest growing government intrusion into business.

That approach is useful, even necessary, but it is not enough. Business must assume a larger, more effective role in both politics and education. This must be done on a daily basis, not just annually.

Politics is the engine of government. The best method of curbing government intrusion into business is effective politics, and business has been neglectful, apathetic, and ignorant in this area.

In our schools, business has failed to promote basic economic education. Our society neither understands nor appreciates the free enterprise system and the vital roles of productivity and profits.

Our free enterprise system is likely to function best if all segments of that system—labor, management, the investor, the consumer, and government—work together with understanding and goodwill. Corporations have failed to promote that necessary cooperation and understanding.

Only a political majority can remove the shackles of excessive government intrusion and the higher costs it imposes.

BURT TALCOTT (R.-CALIF.)
Member
U. S. House of Representatives
Washington, D. C.

America's oldest companies

Please accept my thanks for a job well done in your Lessons of Leadership article on J. Edgar Rhoads, "Running a Family Business for 274 Years" [July].

Mr. Rhoads, our former chairman, is a man of great character and extraordinary human skills. We commend your writer for an excellent job.

KENNETH R. BULL
President
J. E. Rhoads & Sons, Inc.
Wilmington, Del.

Mr. Rhoads is obviously a remarkable person, and I share his concern for improving the use of language.

I believe, however, that the example of improper grammar that he cites is itself inaccurate.

Mr. Rhoads says, "I cringe when, for example, I hear: 'This man behaved like a ten-year-old.' Of course, it should be: 'This man behaved as if he were ten years old.' "

My "Harbrace Handbook," a widely accepted college text on grammatical usage, says that like should be used as a preposition and as or as if should be used as conjunctions. The author cites as correct usage: "He worked like a man."

Because of the respect I gained for Mr. Rhoads from reading the article, I am hesitant to comment on his example, but I feel he should not have to cringe unnecessarily.

GILBERT R. CAMPBELL, JR.
Executive Vice President
DeKalb (County) Chamber of Commerce
Decatur, Ga.

You identify the Rhoads company, founded 274 years ago, as the oldest business in America. The C. P. Washburn Co., of Middleboro, Mass., was founded approximately 350 years ago as a gristmill, later went into feed grains and, in this century, went into building supplies.

BENJAMIN W. FARNHAM
Richard A. Farnham Co.
East Bridgewater, Mass.

My dictionary defines a business as a person, partnership, or corporation engaged in the purchase and sale of goods for a profit. By this definition, farmers could certainly be called businessmen, and the oldest business in America would be Homestead Farm, Windsor, Conn., operated by the Thrall family for 336 years.

ROBERT PATTEN
Patten Homestead Farm
Lawrence, N. Y.

We found your article, "America's Oldest Companies" [July], most in-

Q: Where do Christmas trees come from?

A: Trucks.

Rockwell International can tell you more. Turn to page 73.

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teresting, and we are certain it was most carefully researched.

We suspect, however, that you should have included two additional companies—Iselin Jefferson, of New York, a financial firm, and Bird & Son, of East Walpole, Mass. Both trace their origins to pre-Revolution days.

CHARLES E. ELLIOTT
Administrative Assistant
Laurelcrest Carpets
New York, N. Y.

[Editor's Note: John Washburn built a gristmill on his Duxbury, Mass., farm in 1634 to grind grain for himself and his farmer-neighbors. Present members of the family do not appear to know just how much later the operation became essentially business, rather than essentially farming. The mill was sold in 1900. The building materials line that now comprises an important part of the business was not added until this century.

[Mr. Patten is correct in his observation that today's farmers can be called businessmen. However, farms established by first settlers to provide sustenance to the owners and their families were not businesses in the generally accepted sense of the term.

[In regard to Mr. Elliott's comments, the Bird company says it was founded in 1795. Iselin Jefferson went out of existence several years ago.]

Your inclusion of Devoe & Raynolds among America's oldest companies is sincerely appreciated. We are quite proud of our company's heritage and reputation for quality products over so many years.

I would just like to note that your article misspelled our name by the use of an "e" rather than an "a" in Raynolds.

Our thanks for your continuing contribution to this country's free enterprise system.

JOHN F. GLEASON
President
Devoe & Raynolds Co., Inc.
Louisville, Ky.

Fading protection

James Mussatti, the constitutional specialist, overstates the case in his article, "How the Constitution Supports Private Enterprise" [July].

He lists the concept of limited government as a constitutional protection of the enterprise system.

I challenge Mr. Mussatti to point to a part of the Constitution which has withstood Supreme Court interpretations and survived as an absolute protection of economic rights.

The commerce clause, intended largely to remove state-erected barriers to trade, has been interpreted to allow unlimited federal intervention in a multitude of economic endeavors. The Supreme Court has upheld the constitutionality of the National Labor Relations Act, federal regulation of farmers, and the application of federal civil rights powers to entirely local enterprises.

The Constitution's monetary clause and the Federal Reserve Act together give Congress a money monopoly. Nothing in the Constitution can prevent massive inflation of the money supply, a situation that is catastrophic to business.

Mr. Mussatti calls the due-process guarantee "a private right which many times has enabled business to fend off the interference of states." Such may have been the case under the judicial interpretation in vogue from the late 1890's to the 1930's. This view, incorporating a laissez-faire premise into a Constitution in which such a belief is not explicitly stated, was repudiated by the Supreme Court in 1937 and has not been resurrected. Business today enjoys only the shallow protection of procedural due process, a concept which says nothing about the scope of government power itself.

While Mr. Mussatti writes of the sanctity of contracts, a 1934 Supreme Court decision permits impairment of contracts by government when the public interest so dictates.

These are but a few examples of why, in its literal form, the Constitution is scant protection against malevolent interference in business.

TIM W. FERGUSON
Economics Major
Stanford University
Stanford, Calif.

The article notes that the Constitution divides among three branches of government power to make, execute, and interpret the law.

We have, however, a local situation in which a judge has prevented construction of a freeway that various official boards and commissions had decided should be built.

The route had been laid out, and 40 to 50 percent of the property

continued on page 73

BY JAMES J. KILPATRICK

Rulings That Penalize Private Schools

JUST before it closed up shop for the summer, the Supreme Court handed down its five-to-four decision in Roemer v. Board of Public Works of Maryland. The case dealt with the hotly controversial issue of public support of private education. On the broad fields of First Amendment law, the case is something less than a landmark, but it serves to revive discussion of an important question of public policy.

The question is important to persons who believe in equal treatment under the law, in personal liberty, and in the principle of competition. These beliefs are commonly thought to be widespread. In any event, they are universally professed. My problem is that I do indeed believe in these propositions, and I am at a loss to understand why they should be disdained in the field of education.

The explanation is that proposals for public support of private education, especially at the elementary and secondary levels, crash head-on into a wall. This is the metaphorical wall that is thought to separate church and state. But it is a curious structure, this nebulous wall. It is like no other wall known to man. It shifts, it yields, it suddenly rises up, and now and then, as in the Roemer case, it vanishes into thin air.

Only twice does the Constitution speak of religion—once in the original text and again in the First Amendment. "No religious test shall ever be required as a qualification to any office or public trust under the United States," says the original text. The First Amendment says: "Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof." These are the foundation stones of the wall. Properly perceived, they are priceless adjuncts of a free society.

THE CONSTITUTIONAL provisions have two purposes: They limit the power of the state, and they secure the freedom of the individual. The first purpose has lost much of its original meaning. It would be unthinkable for any legislative body to decree, as a matter of law, that one must be a Mormon, or must be a Catholic, or must be a Protestant in order to hold public office. It is equally ludicrous to suppose that Congress might one day create a Church of America with special privileges of a kind that, in other times and other lands, attached to the Church of Rome and the Church of England. The second purpose, to protect the free exercise of religion, retains its old meaning in contemporary applications. Taken together, the "establishment clause" and the "free exercise clause" stand as enduring barriers against the intrusions of government upon the life of the mind.

But what has happened in the law, in my own view, is that the wall has taken on dimensions it never was meant to have. We seem to have moved by imperceptible degrees from a position of protective neutrality to a position of subtle hostility. This creeping denigration of the role of religion in American life strikes me as a repudiation of values that ought to be preserved. Ours is not an atheistic or an antireligious society. The rituals and traditions of religious faith are part of the fabric of our national life. We are one nation under God. In God we trust. In their oaths of office, our leaders almost invariably pledge their fidelity "so help me God." The houses of Congress open their sessions with prayer. In countless ways, our law has encouraged religious observance as a positive, constructive force for social good.

To deny children equal treatment under the law because of their religion thus impresses me as violative not only of the Constitution but of long tradition also. Yet that is the effect of various Supreme Court rulings, notably in cases from Pennsylvania and Rhode Island. These rulings have stood the establishment clause on its head, and they have greatly weakened the free exercise clause. For the past 20 years, the high court consistently has held that no state may discriminate in its own public schools against a child because of his race. Indeed, during the past term, the court held that not even a private school, drawing no support from public funds, may discriminate against a child because of his race. So it is baffling—at least I find it baffling—that these principles do not apply to all children, regardless of their religion, in their access to money appropriated for the purpose of education.

LET US hypothesize a community in which there reside 1,000 children of school age, subject to the compulsory attendance laws. The state lays it down that these children must be educated; they must learn to read and write, they must learn their numbers, they must learn the rudiments of science, history, literature, and the like. This is the law; the children and their parents are subject to the jurisdiction of the state, and they must obey. For the purposes of education, the community taxes all of its people and raises $1 mil-

lion. It seems to me that if the principle of equal treatment has meaning, each of the children would be entitled to a $1,000 share of the million-dollar pie—to be expended according to his own free choice in a public school, in a parochial school, in a nonsectarian private school, in a vocational school, in any school that meets a state's reasonable requirements as to curriculum, safety, and health.

It does not seem this way to the Supreme Court. Several states have enacted laws attempting to provide, not a full share of the pie, but a little sliver of a share of the pie, for the benefit of children whose families prefer private or parochial schools to public schools. The court has said: No way. At the faintest hint of a suggestion of a possibility that such state aid might indirectly serve a religious purpose, the court has balked. Entanglement! Divisive political potential!

The result of these successive rulings is to compel all children to accept education under the public school monopoly, or to forfeit their rightful share of the tax funds appropriated for education. The families who want a religious-oriented education are thus penalized because of their religious convictions. Their right to a free exercise of religion is diminished. And while all this is going on, the public schools are comfortably spared the rigors of the vigorous competition that healthy private schools could provide.

THE CONCEPT of the tuition grant or tuition voucher makes sense to me—more sense than alternative devices of teacher salary supplements, or the loan of microscopes, or flat grants to eligible institutions. No matter. With a few rare exceptions, having to do chiefly with transportation and textbooks, the court has nullified every state law attempting to benefit pupils who dare to be different—that is, who dare to attend a nonpublic school.

Five years ago, in Tilton v. Richardson, a sorely divided court began to make distinctions as to higher education. Under the Higher Education Facilities Act of 1963, the federal government had made grants for construction of buildings at four Catholic institutions in Connecticut. All the buildings were used for general instruction, as distinguished from sectarian instruction. Two of the buildings were libraries, one a language laboratory, one a science building. The court upheld the law and the grants, reasoning that "there are generally significant differences between the religious aspects of church-related institutions of higher learning and parochial elementary and secondary schools."

Again, in 1973, in Hunt v. McNair, the court upheld the validity of public aid to a church-related institution of higher education. The case involved a South Carolina state law, under which it was proposed to issue $3.5 million in state revenue bonds for the benefit of construction at the Baptist College at Charleston. A six-man majority found no "excessive entanglement" in the arrangement.

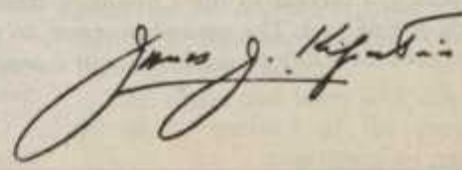
The Roemer case, decided last June 21, pushed ahead on the lines established by Tilton and Hunt. This time, the challenged law was a Maryland statute of 1971 providing direct grants to qualifying institutions for general maintenance and operation, but not for sectarian use. Among the 17 colleges to receive grants in the program's first year were five church-related institutions. For each full-time student, excluding students enrolled in theological academic programs, these institutions received an amount equal to 15 percent of the state's appropriation per full-time student in the state college system.

MR. JUSTICE Blackmun wrote an opinion for the court in which Chief Justice Burger and Mr. Justice Powell joined. Mr. Justice White and Mr. Justice Rehnquist concurred emphatically in the judgment. Justices Brennan, Stewart, Marshall, and Stevens dissented. The several opinions offer a reasonably comprehensive view of the murky jurisprudence that has developed in this field.

The institutions involved in the Roemer challenge are formally affiliated with the Roman Catholic Church. The church is represented on their governing boards. The colleges employ Catholic chaplains. Courses in religion or theology are mandatory. Some classes open with prayer. Some instructors wear clerical garb, and some classrooms have religious symbols. The great majority of students are themselves Catholics. Yet the court was satisfied that the colleges are not "so permeated by religion that the secular side cannot be separated from the sectarian." And besides, said the court, reverting to the Tilton case, colleges and college-age students are one thing; elementary and secondary schools are quite another.

To Mr. Justice White, such convoluted reasoning was beyond comprehension. Maryland's purpose was to aid college students generally. The state's admirable – and secular—object was not to advance religion, but to advance education. Once that permissible aim has been granted, in his view, further inquiry is beyond the reach of constitutional examination. Justices White and Rehnquist would sustain these programs willy-nilly. The evenhanded support of education, as they see it, is not prohibited by the "blurred, indistinct, and variable barrier" known as the wall of separation between church and state.

PERHAPS a working majority of the court eventually will come around to Mr. Justice White's sensible position, for Justice White is right in this. The Roemer decision represented a sort of sidewise movement. The case marked the first time the court has upheld a general program of state aid to private institutions, predicated upon a per capita formula. The tenuous distinction between college students and high school students has no constitutional basis. This is a legislative judgment, stitched together in judicial chambers. If the right to the free exercise of religion means anything, ultimately it must mean that private school students will not be penalized for asserting that right.







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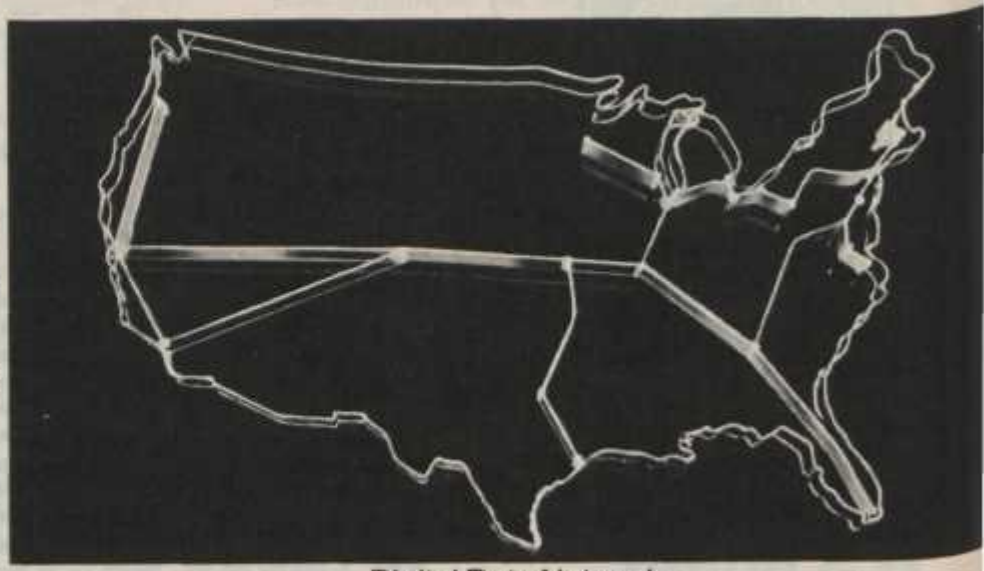
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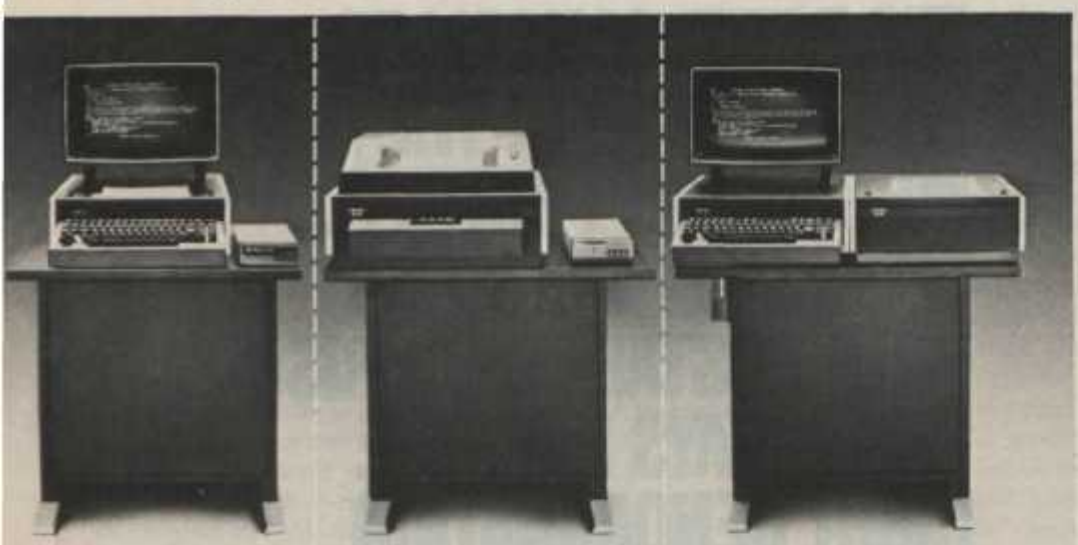
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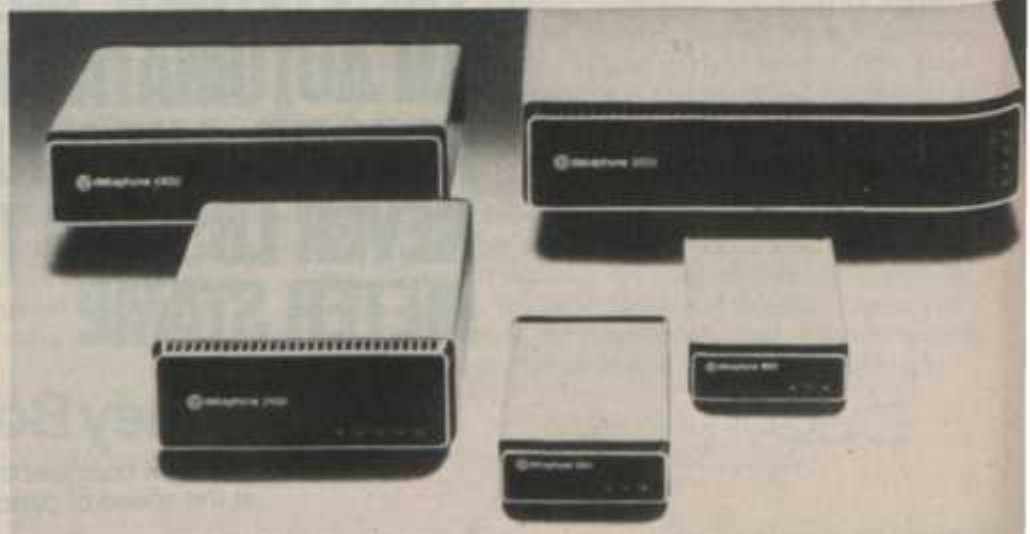
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ENERGY:

Another Crisis in the Making?

ARE YOU READY for another energy crisis?

The country appears headed for one. When the Arabs turned off their oil supply to the United States in the fall of 1973, Americans tightened their belts. People endured long lines at the gasoline station. They dimmed home and office lights, and they turned down their thermostats. In the spirit of togetherness, Americans supported the appeal for national conservation of energy.

Today, more and more motorists are ignoring the 55-mile-an-hour highway speed limit. Despite higher residential utility bills, fewer and fewer homeowners are conserving energy.

Project Independence, designed to free our country of dependence on foreign oil by 1980, never took wing. We are, in fact, becoming more dependent on foreign sources. In 1960, 20 percent of our oil came from abroad. Today, the figure is between 40 and 45 percent. In four more years, more than half of our oil will be supplied by foreign sources.

We are now consuming the energy equivalent of 41 million barrels of oil daily, up from 36 million when the Arab embargo was imposed almost three years ago.

If the current pattern of use continues, we will need the energy equivalent of 95 million barrels of oil daily by the year 2000.

Stringent conservation measures and more efficient use of energy in automobile engines, homes, offices, plants, and so forth could hold down the need to 84 million barrels per day, according to the Commerce Department's Office of Energy Programs.

But even if our energy requirements are limited to that extent, the problem of supply will be a mammoth one. The Office of Energy Programs says that "we will either have to change our attitudes toward the environment, accept the much higher costs involved in producing vast amounts of energy in an environmentally acceptable way," or accept some combination of both policies.

By exploiting to the fullest the oil, coal, gas, hydroelectric, and geothermal resources under our control, and by keeping energy imports to the level where they were at the time of the Arab embargo, we can come up with 60 million barrels of oil-equivalent energy per day, the Office of Energy Programs says. This would leave us short by 24 million barrels.

To close that 24-million-barrel gap would require building a new nuclear power plant every ten days from now until the end of the century, the agency says.

Each plant would cost half a billion dollars in today's dollars and take eight to ten years to build. However, opposition to nuclear power may rule out accelerated access to that source of energy.

In an interview with NATION'S BUSINESS that appears on the following pages, an eminent scientist gives his views on how some of our energy needs may be met.

ENERGY:

A Space Scientist's Solutions

AN INTERVIEW WITH DR. WERNHER VON BRAUN



DR. WERNHER VON BRAUN, one of the nation's foremost scientists, believes America must exploit every possible source of energy—from seaweed and wood alcohol to liquefied natural gas, a fuel whose potential, he says, has barely been touched.

"The United States," he says, "will need a mix of all the energy that can be made available in the years to come. Some of the energy sources are expensive, and some are relatively cheap. Some are dirty, and some are clean. Some are scarce, and some are plentiful. Some are widely distributed and available everywhere. Some prevail only within a local area.

"We need them all."

A native of Germany, Dr. von Braun is given much of the credit for the success of America's efforts in space. He previously headed the team of German scientists which developed the V-2 guided missile during World War II. In the closing days of the war, his group eluded Soviet capture and surrendered to the U. S. Army.

Dr. von Braun came to the United States in 1945 and immediately began research work on guided missiles for this country. He joined the U. S. space team in 1960 as head of the George C. Marshall Space Flight Center in Huntsville, Ala., and played a leading role in the U. S. space program.

In 1970, he was made deputy associate administrator of the National Aeronautics and Space Administration in Washington.

He retired from government service two years later to join Fairchild Industries, Inc., in the position he now holds, vice president for engineering and development.

Dr. von Braun, a U. S. citizen since 1955, has received numerous honors for his work. These range from the Engineer of the Century award in 1966 to the Associated Press Man of the Year in Science award in 1967.

Because of his vast knowledge in the field of science, he was asked to give readers of NATION'S BUSINESS his views on the critical matter of energy supply.

Dr. von Braun, how serious is the world energy problem now?

Survival of civilization as we know it requires that we continue to consume energy, that we practice conservation of our resources, that we protect our environment, and that we search for and develop new energy resources.

In addition to our shortages of

fossil fuel, mankind is becoming alarmingly short of fresh water and food resources. However, without some commonsense concern over our total environment, our worries about food, water, and energy become moot. It is necessary that sensible compromises be made if we are to achieve any of our long-term goals.

How do you regard the short-term outlook?

We really have only four options—coal, oil, natural gas, and nuclear power.

Together, they can provide us with 90 percent of our energy output between now and the turn of the century.

Did we gain any knowledge from our space research that can help us meet our energy needs?

Oh, yes. We learned a great deal about liquefied gas, for one thing.

In the Saturn V moon rockets, we used liquid hydrogen and liquid oxygen as the two main fuels. This gave us a great deal of technological experience in how to handle liquefied gases safely.

This is important because of the role that liquefied natural gas can play in solving our overall needs. There is more energy available in the natural gas that remains on earth than there is in the oil that has not yet been consumed.

Liquefied natural gas can be brought to the United States by ship from many foreign sources—from Algeria, Australia, Latin America, and perhaps the Soviet Union. When we start tapping the natural gas in the Alaskan North Slope, we will have to convert it to LNG to transport it to the West Coast.

We also learned a lot about solar electric power in the space program. All of our spacecraft get their electrical energy from solar cells that convert sunlight directly into electricity.

We already have the technology to build huge solar satellites and hang them in stationary orbit. If you had one up there today, it could provide all the electric power needs of a city the size of Los Angeles.

But is this not a very expensive undertaking?

Yes, in initial capital investment. In the long run, no. We learned in the space program that the lifetime of satellites is a lot longer than we had originally estimated. We did not know, for example, how long they might survive bombardment by micrometeorites. We know now that a satellite can be useful for 30 years or maybe even 50.

With a solar satellite, you would have a tremendous initial investment, but very little cost thereafter.

Will this concept become practical?

Yes, as other sources of energy become more expensive.

The space shuttle now being developed will cut the costs of setting up these solar plants in space. In terms of dollars per pound of payload in orbit, the shuttle will reduce the cost of space transportation to about 16 percent of what it costs with the present throwaway rockets.

This is only the first-generation space shuttle. I am convinced that 20 years from now it will be replaced by a second-generation shuttle that will do the same job for about 20 percent of today's cost.

Are we moving as fast as we should in the development of solar energy?

No. As long as natural gas is so inexpensive, almost nobody will be interested in heating and cooling homes by solar energy. But as gas and electricity become more expensive, we will have to learn to build houses that make more intelligent use of solar energy.

Solar power, whenever it becomes practical, must be cranked into the energy mix of tomorrow.

Where are we with fusion power? Is that a great hope for the future?

Fusion is considered by many as the great savior. Once we can fuse hydrogen into helium under controlled conditions—we know how to fuse the two in a hydrogen bomb, but not in a controlled environment—all our worries about energy will be over. At least, that is what some people think.

Fusion power will certainly change our entire outlook on energy, but it will not necessarily be cheap. Some physicists claim a gallon of seawater will give us the equivalent of energy from a thousand gallons of oil. But when you look at the capital investment necessary to build a fusion plant, plus all the safety features people will demand, the cost will be staggering. So, while the fuel price will be low, the initial cost of the plant will be high.

The Arabs did us a favor by showing us how vulnerable we are, says Dr. von Braun. Until the year 2000, he says, our only options are coal, oil, natural gas, and nuclear power.



More energy is available in the natural gas remaining on earth than in the remaining oil, says the space scientist. He notes gas can be liquefied and brought here.



When can we expect to be getting energy from fusion?

I am optimistic that both the physics breakthrough and the engineering breakthrough are not very far away. I can't tell whether they are going to happen this year or in the next five or ten years, but I think these discoveries lie in the not-too-distant future.

However, even after these breakthroughs are accomplished, it will be another 25 to 30 years before we can start using fusion energy to generate electricity.

So you do not go along with a recent Russian prediction that the Russians may start using fusion power by the mid-1980's?

No, I do not.

Since we know how to employ fusion in a hydrogen bomb, why is it so difficult to put that knowledge to peaceful use?

Take rocketry as an example. The theory that you could fly a rocket to the moon was demonstrated 30 or 40 years ago. But it was not until 1969 that we actually flew people to the moon.

Or take the nuclear fission reactor. Enrico Fermi built the first reactor in 1942 in Chicago, but it was not until 1963 that the first nuclear reactor in New Jersey started providing electrical power.

Why does it take so long to introduce new technology on a commercial basis, once the breakthrough has been established? Well, that is the name of the game.

The first jet engine was introduced before World War II, but more than two decades passed before the first passenger rode a commercial jet aircraft. Transistors, printed circuits, and other electronics developments surfaced during World War II or shortly after. But it was not until recently that you could buy pocket-sized, solid-state radios and calculators.

In the case of fusion power, you are not only bucking technical difficulties. You will be bucking political difficulties, the environmental people, the safety people, the consumer interests, and so forth.

What do you mean by political difficulties?

Well, there is no question in my mind that the price of natural gas is being held artificially low because everyone wants natural gas to heat his home. The price is being kept low because that is where the votes are. With so many people dependent on natural gas, no congressman wants to take the responsibility of driving the price up.

As long as the price of that kind of energy is kept artificially low, there is no incentive to go after more exotic and more expensive forms of energy.

Let me give you another example.

We have a lot of clean coal in the West, but to get it out of the ground involves strip-mining. Strip-mining, of course, is objectionable to environmentalists. How do you convince a Montana rancher that we should tear up his land so that New Yorkers can be kept warm? Here you have politics involved.

I can fully understand the political pressures. I would be hurting myself, you know, if I recommended that we triple the price of natural gas to encourage more exploration, because my house is also heated with natural gas.

Have we been lulled into a state of complacency by this relatively cheap energy we enjoy?

By all means. When the Arabs imposed the oil embargo, I had a very sinful thought. I said: They are doing us a favor by showing us how vulnerable we are.

You mentioned the question of safety in transporting liquefied natural gas. Is that a problem?

Dr. Edward Teller, a distinguished nuclear physicist and father of the hydrogen bomb, makes that objection. I disagree. To my knowledge, there has not been a major accident involving LNG. It has been moving by ship since about 1960. There is a fire hazard involved, but no danger of an explosion.

If an LNG tanker runs aground and breaks up, the liquefied gas will simply run out and evaporate. That is an advantage over a spill of crude oil.

Because there is danger of fire, the U. S. Coast Guard and the involved port authorities must impose strict safety rules to eliminate the possibility of major ship collisions and groundings while in harbor areas.

What are some other forms of energy we should be looking at, Dr. von Braun?

There are many. I believe, as do

The U.S. has a lot of clean coal in the West, but getting it out of the ground involves surface mining, Dr. von Braun notes. There is strong pressure against such mining.



Even after needed breakthroughs, it will be another 25 to 30 years before we can start using nuclear fusion to generate electricity, the famed scientist predicts.



many other scientists, that we should be able to utilize wood alcohol—methanol—as a clean fuel for tomorrow's automobiles. Wood is a renewable energy source, and we have an abundance of timber.

A project under way at the Naval Undersea Center in San Diego shows that kelp farming can produce huge amounts of methane gas, in addition to producing food. If you draw an imaginary line from San Diego to Hawaii to Seattle, you have an immense area of ocean suitable for kelp farming. In just ten percent of that triangle, you can grow enough kelp to produce all the energy the world needs.

Both wood alcohol and methane gas from sea farming belong in the nation's energy mix in the future.

Anything else?

The moon, as we know, plays tricks with our oceans, causing high and low tides.

The earth's own rotation causes ocean currents, which in turn contribute to the birth of winds and weather. These phenomena—breaking surf, tides, ocean currents, and cold seawater welling up to the surface—have the potential for generating billions of megawatts of electricity.

But to harness these natural forces will call for stupendous projects costing billions of dollars.

Is anything being done in this area?

More than two dozen major sites for harnessing tidal energy have been proposed throughout the world. But so far, only one plant has been built—a $100 million facility on the coast of Brittany in France. It is producing some 500,000 kilowatts of electricity.

How about geothermal energy?

Well, that is perhaps the most limited of all power resources.

We are getting close to 250,000 kilowatts of electrical power from a geothermal plant in Sonoma County, Calif. By 1980, we should be generating enough geothermal power to meet the industrial and domestic needs of a city the size of San Francisco. And by 1985, geothermal power will provide perhaps as much as two percent of the U. S. energy demand.

That does not sound like a great deal, but it does constitute almost as much energy as we get today from all existing nuclear power plants. Every little bit helps, and further development of geothermal power must be pursued.

Of all these energy sources, which do you consider the most promising?

In the area of clean energy, I would say natural gas. Worldwide, natural gas is a reservoir of energy that remains largely untapped. It can and should contribute greatly toward satisfying our hunger for clean energy now and in the future.

An important consideration is that a great many homes and plants in the United States, as well as elsewhere, are already equipped to use natural gas.

It is the form of energy that was most economical at the time these houses and factories were built. Retrofitting all of them to use other forms of energy would be costly. It would also take years to accomplish.

We already have in place a distribution system for natural gas, tailored to consumers' needs and developed over many years. Common sense certainly would tell us that we need to make the best possible use of this existing equipment and distribution system.

But are we not running out of natural gas in this country?

I think there is a lot more natural gas than most people believe. But there is no incentive to develop it.

However, I am talking about a distribution system that can move other kinds of gas as well. We are working on synthetic gases produced from coal or crude oil gasification, as well as gas produced from kelp by sea farming. There is natural gas that will come from the North Slope, be converted to LNG, and be restored to its natural form when it reaches West Coast ports. Also, gas from the U. S. continental shelf and LNG from many other parts of the world.

I am convinced that LNG's contribution to world energy needs is just around the corner.

Can we then expect to return to the days of inexpensive energy?

No. We have been very, very wasteful of energy simply because it was cheap. The sooner we get used to the fact that it is no longer cheap, the better it will be for all of us. □

REPRINTS *of this article are available from Nation's Business. See page 72 for details.*

We have the technology now to put in orbit huge solar energy satellites, Dr. von Braun says. One, he says, could provide all the electricity for a city the size of Los Angeles.



Wood alcohol—methanol—from our vast forests or methane gas from kelp grown in giant beds off the West Coast have major potential as sources of fuel.



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The Next President's



PHOTO: DENNIS BRACK—BLACK STAR

WITH TWO MONTHS to go until election day, the two major presidential candidates are paying increasing attention to subjects which are vital to the interests of business—subjects such as taxes, government regulation, and employment. To pinpoint the candidates'

PRESIDENT FORD:

Do you favor a $3 minimum hourly wage and tying future increases to the cost-of-living index?

I do not advocate change in the minimum hourly wage or the coverage.

Do you favor restructuring the regulatory agencies?

Freedom from massive government regulations is necessary for a healthy economy. Millions of working hours costing billions of dollars are wasted because of bureaucratic red tape. Called for are reforms in regulatory agencies in key areas of the economy, such as the airlines, trucking, railroads, and financial institutions.

Do you favor general tax reform, and what thrust would you suggest?

Estate tax changes are needed to enable family businesses and farms to be handed down to later generations without having to be sold to meet tax charges. Also needed are tax changes which would give moderate-income families tax benefits if they make long-term investments in common stocks in American companies. Basic personal income tax rates should be lowered. Personal tax exemptions should be raised from $750 to $1,000; standard deductions should go up to $1,800 for single taxpayers and to $2,500 for married couples.

Would you press for a balanced budget, and how would you go about it? Or do you think balancing the budget is not achievable?

The combination of tax and spending changes I propose will set us on a course that not only leads to a balanced budget within three years, but also improves the prospects for the economy to stay on a growth path that we can sustain. I believe my administration's record speaks for itself: a cut in the rate of growth of federal funding from 11 percent to 5½ percent and the use of the presidential veto power to save taxpayers almost $13 billion in excessive federal spending in all areas of the budget.

What role should the federal government play in restoring a healthy economy?

Our responsibility in the executive branch, in conjunction with the Congress, is to use responsible fiscal policy to attack the problem of inflation. Monetary policy under the Federal Reserve Board and fiscal policy under the executive and legislative branches must go hand in hand. The Federal Reserve Board has a major role, and the board should expand money supplies while being cognizant of the interest rate problem. The decisions of this independent govern-

continued on page 32

Views on Business Issues

positions on a number of these issues, NATION'S BUSINESS asked President Gerald R. Ford, the Republican candidate, and Gov. Jimmy Carter, the Democratic candidate, the same ten questions. The candidates' answers are presented on these pages:



PHOTO: DAVID FALCONER—BLACK STAR

GOVERNOR CARTER:

Do you favor a $3 minimum hourly wage and tying future increases to the cost-of-living index?

Higher priorities must be faced. The U. S. should put primary efforts on ensuring full employment.

Do you favor restructuring the regulatory agencies?

The revolving door between regulatory agencies and the regulated industries should be closed.

A recent report stated that 350 government decision-makers once worked for industries they now regulate. At least 41 high-level officials have recently left federal agencies for lucrative posts with companies in industries those same agencies regulated. More than 100 government officials who decided what drugs could be sold and what chemicals could be put in food once worked for drug and chemical companies. More than 30 top-level regulatory officials now make the rules for sale of stocks and bonds to the public by their former employers—including brokerage firms and stock exchanges. Also, companies and consumers both would benefit from a change in regulation. For example, the airline industry would be more competitive with less regulatory interference.

Do you favor general tax reform, and what thrust would you suggest?

The national tax system is a disgrace. Some large corporations with extremely high profits pay virtually no tax at all. The average family earning $10,000 per year pays a larger portion of its income in various taxes than a family with an annual income of $1 million or more. A piecemeal approach to change will not work. Basically, subject to some exceptions, a simplified tax system, which treats all income the same, would be better.

Would you press for a balanced budget, and how would you go about it? Or do you think balancing the budget is not achievable?

We should strive toward a balanced budget in times of normal prosperity. Most importantly, necessary imbalances during times of economic or military crises should be controllable and a matter of carefully determined policy.

Zero-based budgeting should be required for all federal departments, bureaus, and boards. This process requires each departmental budget or spending program to rejustify itself annually before more can be spent. It ensures elimination of unneeded or obsolescent programs, provides a routine means for reduction or modification of unsatisfactory programs which should be continued, and provides for a logical and enlightened expansion

continued on page 32

PRESIDENT FORD *continued*

ment agency have a significant impact on interest rates.

Do you favor an increased public employment program or subsidizing jobs in the private sector with tax incentives?

I have proposed tax incentives to spur capital investment in areas of high unemployment. I want to encourage industry to build new facilities to create lasting jobs. On the public works bill, I stated in my veto message that the bill would do little to create jobs for the unemployed and that it had so many deficiencies and undesirable provisions that it would do more harm than good. While it was represented as the solution to our unemployment problems, in fact it was little more than an election-year pork barrel.

Do you favor using general revenue for Social Security benefit increases, or do you prefer raising Social Security tax rates and the wage base?

A three tenths of one percent increase is needed in both employer and employee Social Security taxes, effective next January. This would cost each covered employee less than $1 extra each week and would ensure the integrity of the Social Security tax fund. Otherwise, simple arithmetic warns that the fund is headed for trouble.

The fund must take in as much money as it pays out to ensure security for Americans.

What kind of national health program would you support?

I do not support federally dictated health insurance providing full coverage to 215 million Americans. Through the experience of other countries, serious questions are raised about the quality of health care as well as the cost of such a plan. However, I recognize the urgent medical needs of older Americans, and I proposed in the State of the Union message catastrophic health insurance for everyone covered by Medicare. Under this proposal, no one after reaching the age of 65 would have to pay more than $500 a year for covered hospital or nursing home care or pay more than $250 in doctor bills.

What would you do to speed the national effort for energy independence?

We have to approach the energy problem on a wide spectrum of stimulating the private economy to increase domestic production, not only within the lower 48 states but also in Alaska. We have to increase domestic production of gas, and that is what is involved in the deregulation legislation. At the same time, the federal government must increase research and development (my budget for fiscal 1977 increases funds from 30 percent to 40 percent in this area) in solar energy, geothermal production of energy, and some of the other exotic areas.

Would you advocate imposing conditions on the Russians in future grain deals aimed at bringing them closer to our positions on such things as arms reduction?

American grain is important to the Soviet Union, but not vital. If the U. S. used grain for leverage, the Soviets would get along without U. S. grain and ignore U. S. views.

Linkage of grain and diplomacy would mean disruptions for American farmers and increase the tension between the world's two superpowers. □

GOVERNOR CARTER *continued*

of service delivery systems, when needed.

What role should the federal government play in restoring a healthy economy?

The federal government has a responsibility to stimulate employment in such crucial areas as rebuilding our railroads, installation of solar heating units, completion of our interstate road system, construction of pollution control facilities for local governments, and improvement of health services—particularly through the use of paraprofessionals.

As a last resort, public employment jobs need to be created similar to those created during the 1930's, particularly for Americans 18 to 21 years old.

Do you favor an increased public employment program or subsidizing jobs in the private sector with tax incentives?

The best approach usually is job stimulation through private industry. For areas and groups of people afflicted with acute unemployment, public service jobs are best.

Do you favor using general revenue for Social Security benefit increases, or do you prefer raising Social Security tax rates and the wage base?

The U. S. should do as much as possible to avoid general revenue contributions to the Social Security fund. As more people go back to work and the rate of inflation decreases, some short-term problems in financing will be overcome. The government should study every means of making the fund more secure, including a rise in the wage base or the tax rate, or a combination of the two.

What kind of national health program would you support?

A comprehensive national health insurance program is needed which guarantees to every person as much care as he or she needs, with minimal or no deductibles or coinsurance [that portion of a covered charge for which the insured is responsible], and with cost and quality controls.

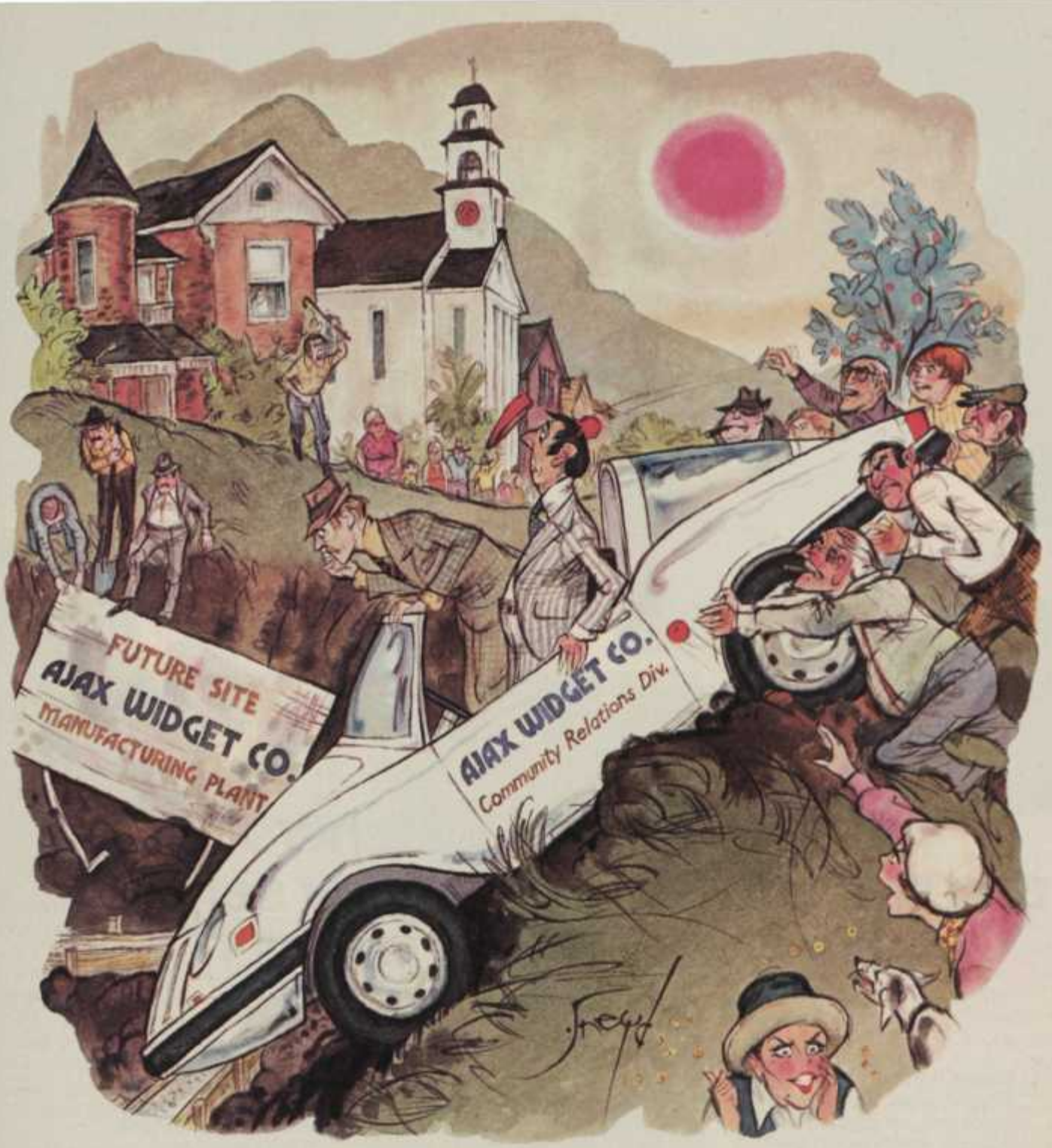
What would you do to speed the national effort for energy independence?

With proper national planning and determined execution of long-range policies, energy conservation and production can be increased. This can be compatible with environmental quality and economic well-being. Unless a major shift to coal is made, along with substantially increased use of solar energy, the U. S. will have no alternative to greatly increased dependence on nuclear power.

We must make every effort to keep dependence on nuclear energy to a minimum.

Would you advocate imposing conditions on the Russians in future grain deals aimed at bringing them closer to our positions on such things as arms reduction?

Emergency food aid should not be used as a diplomatic tool. However, in trade discussions—with the Russians, for example—we should strive to obtain diplomatic concessions. □



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The Consequences of Breaking Up Big Companies

BY DR. JAMES S. CROSS

AMERICA'S ENERGY PROBLEM is becoming more serious month by month. This is difficult for people to believe. People are not waiting in long lines at gasoline stations nor having trouble getting oil to heat their homes. Fuel is available to operate tractors, trucks, trains, and planes.

On the surface, there seems to be little to worry about.

This surface appearance is deceiving. An increasing proportion of the petroleum needed to keep our economy operating must be imported—today, the figure is above 40 percent. And a higher and higher percentage must come from Middle Eastern nations which shut off the supply to the U. S. in the winter of 1973-1974.

Curious action in Congress

What has Congress done about America's deteriorating energy picture? For one thing, it has extended price controls on oil—although controls were given up as ineffective and counterproductive for all other industries.

Foreign oil prices, of course, have been sharply escalated by the Organization of Petroleum Exporting Countries. By keeping domestic oil prices below world prices, the controls are acting to discourage efforts to increase domestic supplies, encourage consumption, and make us more dependent on foreign oil.



Dr. Cross, an economist, is assistant to the executive vice president of the American Petroleum Institute.

Some members of Congress have now come up with another curious proposal: Break up the oil companies.

Under one bill which was reported out of the Senate Antitrust and Monopoly Subcommittee in April, larger oil companies would be required to choose whether to be in production, transportation, or refining and marketing. Each company could stay in only one segment of the business.

Proponents of dismemberment legislation falsely claim that oil companies act together to control production and prices. They maintain that, by breaking the vertical structure, competition will be stimulated and prices driven down.

It is increasingly clear that forced dismemberment would have serious repercussions on the economy. The legislation itself would undoubtedly be challenged in court. Dismemberment plans would have to be submitted to the Federal Trade Commission, and the plans probably would be challenged and have to be redrawn. Every creditor, everyone who has contractual arrangements with these oil companies, and every major stockholder would probably be in court to protect their interests. Legal experts have predicted it would take ten to 20 years to straighten out all the snarls in the courts.

Drying up investment

Under these unsettled conditions, would integrated companies invest millions of dollars in the search for oil? Would they move ahead on building new refineries or pipelines? Would they invest heavily in research?

Financial prudence would require

that the companies cut back on spending and shelve plans to build additional facilities or to accelerate research efforts.

It is doubtful whether oil companies could raise the risk capital needed to move ahead even if they desired to do so. Potential investors would not know who would finally own the divested assets, what types of firms would ultimately emerge, or if the emerging firms could compete successfully in domestic or international markets. Rather than invest in oil companies, investors would more likely channel savings toward industries which offered greater certainty of an adequate return.

The inevitable cutback in investment would reduce output and employment. No one really knows the precise figures, but one oil company estimates that, if there were a 50 percent reduction in petroleum investment, 470,000 jobs would be lost in the first year after dismemberment and more than one million jobs in the second. Meanwhile, reduced domestic energy development and increased dependence on foreign oil unquestionably would push oil prices up and hurt consumers.

No monopoly power

Despite the legal problems and the adverse economic impact, dismemberment legislation might be worthwhile if large oil companies actually had monopoly power enabling them to control prices and production. However, no logical proof has ever been presented in support of allegations of monopoly power. Numerous academic studies have shown there is effective competition on each level of the petroleum industry structure.

One way economists determine whether monopoly power exists is by looking at the share of a particular market held by the largest firms. If the four largest firms hold less than 50 percent of a market, or the top eight less than 75 percent, it is considered unlikely that they can exercise monopoly power.

In each of the four major segments of the oil industry—i.e., production, transportation, refining, and marketing—the market share of the top four firms is less than 35 percent; the largest eight have no more than a 55 percent share.

Another evidence of monopoly power would be the inability of potential competitors to enter a market. What evidence is there of barriers to entry?

Thousands of competitors

Small, independent firms have always been predominant in exploration and production, where there are an estimated 10,000 firms. In refining, there have been many new entrants, and smaller companies have increased their share of U. S. refining capacity from 18 to 26 percent in the past two decades. During this same period, the number of firms owning pipelines has increased more than 50 percent. In marketing, independents have about 30 percent of the retail gasoline market today, compared with only 20 percent less than ten years ago.

"The inevitable cutback in investment would reduce output and employment. . . . Increased dependence on foreign oil unquestionably would push oil prices up."

Still another evidence of monopoly would be abnormally high profits. While charges of excessive profits were leveled at the industry in 1974—a year in which a number of unexpected events led to higher than-usual profitability—profits have now dropped back below 1973 levels. Over a period of many years, profitability in the oil industry has been at or slightly below the average for all U. S. industries.

Hampering the search for oil

U. S. oil companies are searching for oil and gas both at home and around the world. Success in their search will increase world energy supplies and weaken the power of the OPEC nations to control prices. Fragmented U. S. firms would be less effective in finding and developing additional supplies of oil and gas, less able to compete with large vertically integrated foreign firms, and less able to provide customers with a reliable supply of petroleum.

Vertical integration is common throughout American industry. It developed because it is an efficient way to do business.

If anticompetitive behavior is found in the industry, remedial actions can be taken. The antitrust laws can be and are being used to ensure preservation of competition.

However, by any yardstick, the oil industry is competitive. If it can be broken up, integrated companies in industries such as steel, autos, cigarettes, television, and food could receive the same treatment.

In recent years, people have become concerned that bigness, whether in industry or government, can lead to bribery and other abuses of power. Certainly, where such abuses exist, corrective actions should be taken, and, indeed, laws are on the books to punish those engaging in such illegal actions. However, this type of wrongdoing relates to the moral fiber of our society, not to the size of the institution. It is doubtful that dismemberment legislation would make any contribution toward improving public morality.

"Four ounces of arsenic"

When the dismemberment bill was reported out of the Senate Antitrust and Monopoly Subcommittee, one senator said the oil companies would view it as "four ounces of arsenic." Such an assessment is correct; this legislation would be deadly in its impact on larger oil companies. And much more is at stake than the future of these firms.

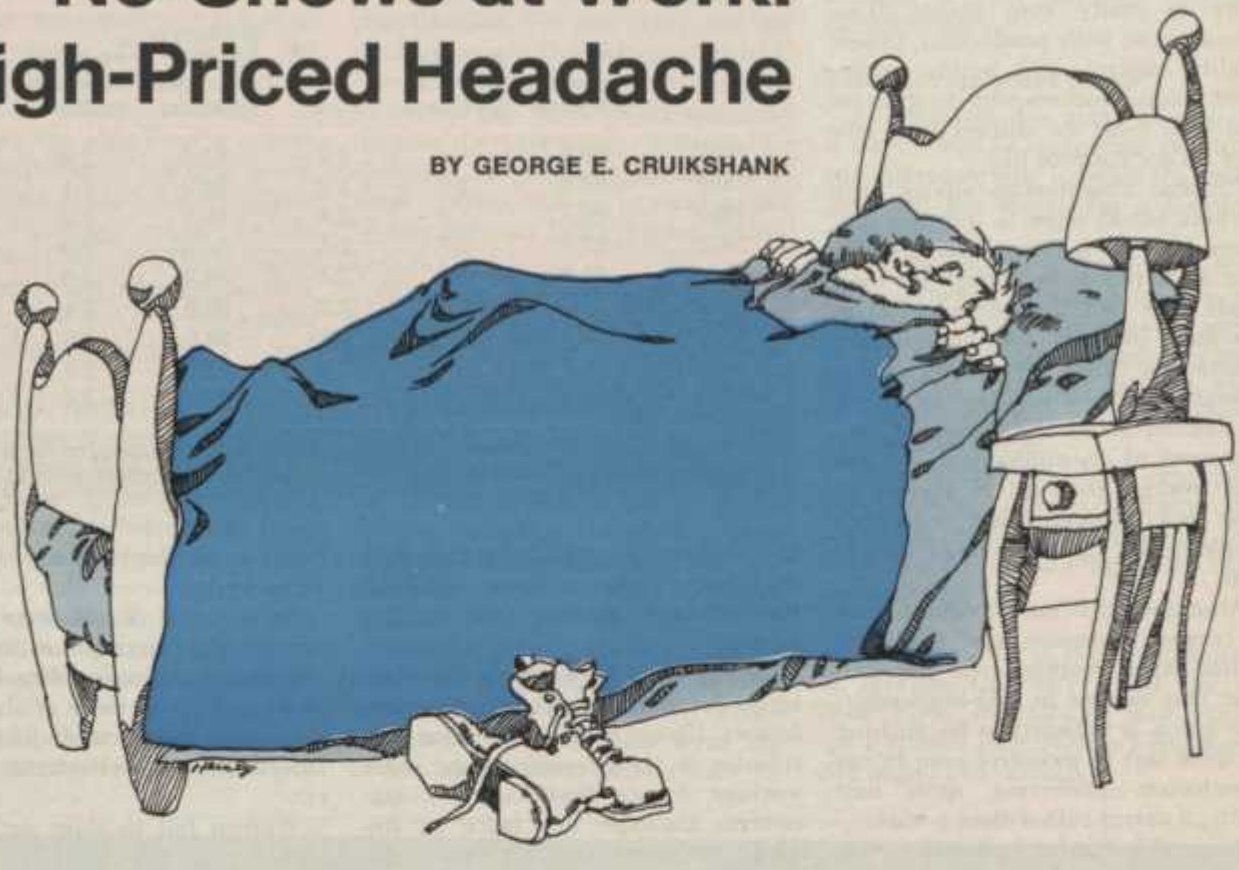
The legislation would be deadly in its impact on financial markets and on the savings and incomes of investors. It would be deadly in its impact on consumers by reducing domestic energy supplies and increasing the cost of energy.

Finally, it would be deadly in its impact on the economy by causing higher unemployment, increasing international payments problems, and strengthening the OPEC cartel. Also, it would weaken our national security.

We need sound and farsighted energy policies designed to bring an end to our precarious energy situation. We do not need economic arsenic poisoning. □

No-Shows at Work: High-Priced Headache

BY GEORGE E. CRUIKSHANK



HIGH ON THE LIST of industry headaches these days—right up there with inflation and government overregulation—is the growing tendency among employees not to show up as scheduled. When the alarm clock goes off in the morning, more and more workers decide to stay in bed.

Absenteeism has reached the point where, on any given workday, between three percent and seven percent of the work force is among the missing. Harvey H. Shore, professor of industrial administration at the University of Connecticut, estimates the cost at $15 billion to $20 billion a year just in wages paid for days when employees are absent.

And there are other significant costs: the expense of training workers to fill in for absentees; disruption of production, which holds up deliveries; and, in many industries, a perpetual overstaffing in order to minimize the impact of absenteeism.

As a spokesman for Deere & Co., the big farm equipment maker, puts it: "If everybody we have hired would come to work, we could lay off eight percent of our work force."

Unscheduled absences from work, of course, can be legitimate—illness, injury, or a pressing family or personal problem. But industry surveys show that abuses occur with dismaying frequency. Illness and injury are often feigned, and, in the more flagrant cases, employees openly admit that they failed to report simply because they did not feel like showing up on the job.



ILLUSTRATION / JOHN KEALY

Fewer jobs, same no-shows

The recent recession, deepest in a generation and bringing with it unemployment rates which rose above nine percent, might reasonably have been expected to bring some noticeable easing in absenteeism. Actually, there was no discernible effect; a stretch of hard times left absenteeism practically unchanged from that of the preceding period of prosperity.

One industry particularly hard hit by absenteeism is the auto industry. General Motors, Ford, and Chrysler have had anywhere from five percent to seven percent of their workers absent, on average, year in and year out. On certain days of the week (Monday and Friday) and at certain times of the year (such as the begin-

ning of the hunting season), the absenteeism rate climbs much higher—to ten percent, 15 percent, and even more in many auto plants. This raises havoc with production, upsets quality control, and builds resentment among workers who do show up and who must be shifted into jobs they do not know or like.

Chronic absenteeism among auto workers would seem to indicate that many such workers consider three or four days' pay to be enough for their needs. The fact that absenteeism in the auto industry was largely unaffected by heavy layoffs during the recession may be ascribed to a lack of concern about the economic consequences of unemployment. Jobless auto workers received 95 percent of their pay through their industry's supplemental unemployment benefit plan.

Absenteeism is an important issue in company negotiations with the United Auto Workers over the contract that expires in mid-September. The union is believed to be pushing for some sort of incentive plan to cut absenteeism—preferring, quite naturally, a carrot rather than a stick.

A possible approach would be for the UAW to seek an extra benefit like one it has won from farm equipment companies.

In 1973, these firms began giving some 100,000 workers a half-hour off for each week of perfect attendance. One trouble with the plan, from the farm equipment makers' standpoint, is that workers who are habitually absent continue to goof off while the workweek of the faithful worker, in effect, has been cut by half an hour. Although this approach is understandably appealing to faithful workers, from the company viewpoint it leaves much to be desired as a cure for absenteeism.

The long and the short

Unscheduled absentees are sorted into two categories: those who do not show up for work for a week or more, and those who are absent part of a week. The table at the top of this page reveals the trend for both groups back to 1967.

Full-week absences: Last year, out of 69.4 million full-time and part-time wage and salary workers, some 1.8 million, on average, in any given week were taking unauthorized leaves of a week or longer—2.6 percent of the workers. In 1967, the first year that such statistics were collected, the full-week absence rate was 2.2 percent.

The level of longer-term absenteeism is determined, of course, by many factors. Illness ranks as a major contributor to absenteeism among older workers. Among those over 45, longer-term absences are twice as frequent as for workers who are under 25.

Conversely, older workers are considerably less likely to play hooky for only a day or two.

Part-week absences: Such absenteeism is said to be the best indicator of the growing tendency for workers to shirk their job obligations. Failing to show up on a Friday or a Monday or before or after a holiday fits the all-too-prevalent pattern of malingering, according to industry surveys.

Each workweek last year, some 2.4 million full-time workers, on average, did not report to the job for part of the week—4.1 percent of such workers. In 1967, the percentage was 3.9.

Under-30 employees are the most frequent takers of one or two-day absences. Many of these see work as nothing more than a restraint on personal freedom.

Industry and government studies show quite a bit more about absentees, whether full-week or part-week. Among the no-shows is, not unexpectedly, the dissatisfied worker, who is especially prone to shirk the workbench or desk for a rowboat and a fishing pole. Similarly, there is no mystery about why an alcoholic or a drug abuser habitually skips work.

By type of occupation, absenteeism is higher among blue-collar workers than it is among white-collar employees. Highest rates of absenteeism are shown by assembly-line workers, laborers, and service-industry workers.

Women fail to show up for work more frequently than do men. It should be noted that women are more likely to be new hires or holders of lower-skill, lower-paying jobs—categories which typically show high rates of absenteeism. Single or divorced women generally tend to have a better attendance record than do married women, especially if the wife has small children at home.

Certain companies, too, are more likely to suffer from absenteeism than others. For example, companies which offer sick-leave pay are found to have higher rates of unscheduled absences for illness than companies which make no such payments. And firms which keep scant records of employee absences, and do not make an issue of such behavior when it occurs, have larger problems with no-shows than companies exerting more discipline.

Searching for a cure

Industrywide, a search now is under way for methods to prevent and cure absenteeism. Four approaches are being tested with, unhappily, rather indifferent results.

Four-day week: For those companies which have shortened the workweek, the hope was that workers—

Absenteeism Among American Workers

	All workers (millions)	Full-week absences (millions)	Rate*	Workers on full-time schedules (millions)	Part-week absences (millions)	Rate*
1967	62.9	1.4	2.2	51.8	2.0	3.9
1968	64.6	1.5	2.3	52.9	2.1	4.1
1969	66.7	1.6	2.4	54.1	2.2	4.1
1970	67.7	1.7	2.5	54.3	2.3	4.2
1971	68.2	1.7	2.4	54.4	2.3	4.3
1972	70.7	1.7	2.3	56.5	2.4	4.3
1973	73.5	1.7	2.3	58.6	2.6	4.4
1974	74.9	1.8	2.4	59.2	2.5	4.2
1975	69.4	1.8	2.6	57.7	2.4	4.1

*Absences per 100 workers in an average week. Data exclude agricultural and private household workers. Source: U. S. Department of Labor

with an added day for visits to the dentist and so on—would be more likely to show up as scheduled for work. Initially, that proves to be the case. When the novelty of the four-day week wears off, however, the tendency is for absenteeism to climb back to or near the former level.

Flextime: The idea here is to give workers flexibility in working hours, within certain limits. An eight-hour day, for example, might include working from 8 a.m. to 10 a.m., three hours off, and then returning to work from 2 p.m. to 8 p.m.—or some other such variation in the normal 9 to 5 schedule.

Presumably, flextime would better fit the life-styles of some workers and allow time, other than weekends, for personal chores. In most companies where flextime has been tried, however, reductions in absenteeism have proved to be only temporary.

Job enrichment: No-shows would be reduced, in theory, if jobs could be made less dull, repetitive, and boring. Thus, the need is to redesign jobs to make them challenging, enlarging opportunities for creativity and job satisfaction, so that workers would be eager to face each new day at the factory or office.

Such a theory runs into some hard practicalities. For one thing, not all workers want their jobs enriched. Many do not seek greater opportunities, do not want added responsibilities; they are happy with an unchanging, comfortable routine. For these workers, job enrichment might boomerang and bring higher absenteeism.

Moreover, in most mass-production industries, it is highly impractical to strive for a system catering to individual problem-solving and creative decision-making. It might be more meaningful for each worker to dig into a pile of 10,000 parts and assemble a complete widget, but the results for the company—in soaring costs owing to reduced efficiency and productivity—surely would be disastrous.

Incentive prizes: Many companies resort to, in effect, a mild form of bribery to cut absenteeism: Prizes are given to those who have unbroken attendance. Such prizes include everything from trading stamps and hair driers to color TV's. Unfortunately, malingerers seem largely immune to such relatively low-cost blandishments.

The search must go on

Absenteeism has many causes, so it should not be surprising that any one approach fails to solve the problem. But the search for a solution must continue.

For the overall economy, the cost of no-shows is reckoned in tens of millions of lost man-hours every week in idle machinery and unused plant facilities, in materials spoilage, and in delayed shipments to customers, among other things.

Much concern has been expressed about lagging U. S. productivity. Absenteeism is a direct—perhaps the most direct—encumbrance on that productivity. □

MR. CRUIKSHANK *is a vice president of Morgan Guaranty Trust Co. of New York.* *Reprints of this article are available from Nation's Business.* *See page 72 for details.*





Route to Profits in a Tough Business

Continental Airlines is known as one of the best-run companies in its field. Aviation pioneer Robert Six, the company's chief executive, describes management principles he applies to his job

IN HIS YOUTH, Bob Six wanted to be an airline pilot. He never became one.

However, Robert Forman Six had a kind of romance with aviation that would not be denied. Today, he is chairman and chief executive officer of Continental Airlines, regarded as one of the best-run companies in its field.

Bob Six is one of a vanishing breed of aviation pioneers—men who helped build a shoestring business into a giant American industry. These were the innovators and visionaries who looked at tiny single-engine planes, dirt runways, and crude shelters for passengers, but in their minds saw giant airliners, mile-long ribbons of concrete, and huge airport terminals.

Continental and Bob Six have come a long way together. He joined the company in 1936. Then known as Varney Speed Lines, Southwest Division, it had three single-engine Lockheed Vegas; a work force of 15 which included four pilots and one mechanic; and a federal permit to carry mail and passengers between Pueblo, Colo., and El Paso, Texas.

Today, Continental's routes extend from Miami to Honolulu and beyond to Micronesia and Japan. It has 55 big jet liners and 9,000 employees, and it flies seven million passengers a year. It also is heavily invested in hotels in California and westward across the Pacific.

Last year, Continental suffered its first financial setback in 17 years when it lost $9.7 million, although its operating revenues passed the half-billion-dollar mark for the first time. Continental has had an enviable record of showing profits when many airlines were losing money. For instance, between 1940 and 1974, Continental went into the red only once —in 1958, when it lost $100,000.

A high school dropout

Bob Six, son of an Indiana doctor who migrated westward at the turn of the century, was born in Stockton, Calif., in 1907. He dropped out of high school after his second year and set out on his own.

He worked as a factory hand, a seaman, a bill collector for Pacific Gas & Electric Co., a truck driver, and a stunt flier.

Mr. Six, who resembles his good friend, actor John Wayne, learned to fly at 22 and received pilot's license number 5772. He was smitten. Not long afterward, Mr. Six bought a small plane and founded the Valley Flying Service in Stockton. He sold scenic rides during the week and raced his plane on weekends.

When Boeing Air Transport, one of three airlines that eventually merged into United Airlines, opened a school in San Francisco to train airline pilots, Bob Six was among the first to enroll. But he was expelled when an instructor found he was using Boeing mechanics to work on his personal plane.

So it was back to Valley Flying Service. One day, in a borrowed plane, he undershot a runway and cracked up. Later, in another plane, he forgot to check the fuel tank before takeoff, and he crash-landed. Another time, while he was flying his own plane, a broken crankshaft caused a forced landing in a bean field near Salinas, Calif. When he returned from town with a replacement part, he found his plane chained to a fence. He retrieved the aircraft only after paying an irate farmer for



Robert Six and his wife, well-known actress Audrey Meadows, enjoy one of their favorite pastimes at their ranch in Colorado. Mrs. Six is a constant companion of her husband on his numerous flights along the Continental system.

having damaged a section of beans.

The Six flying service soon fell victim to the Depression. Unable to find a job, Mr. Six sailed for Shanghai. He knocked around Asia and Europe for the next couple of years. Returning home, he took a job trucking newspapers for the "San Francisco Chronicle." When labor boss Harry Bridges ordered a general strike in the San Francisco area, Bob Six stayed on the job, defying rock-throwing picketers. The "Chronicle" gave him a gold medal in appreciation. He keeps it in a little jewel case at home.

Friendship with founder

Later, Mr. Six took over a distributorship to sell Beechcraft, and he was doing that when he joined Continental. At the airline, he began a long and close friendship with the late Louis Mueller, the founder, who was chairman from 1937 to 1966. Mr. Six credits Mr. Mueller with much of his success.

The team of Mueller and Six worked well from the start. They hocked their homes and other personal property in order to buy three twin-engine Lodestars from Lockheed.

Bob Six was convinced that the struggling airline, then flying only from Denver to El Paso, could never be successful with the name Varney. When he suggested the name Continental to Mr. Mueller, he said: "Someday, maybe we can expand into an east-west airline, and, if we do, we will have a name that goes anyplace."

Mr. Mueller repeated the name as though he were savoring a fine wine. Finally, he said: "Continental—I like it."

In 1938, on Mr. Mueller's recommendation, the board elected Mr. Six president. Mr. Six continued the job of upgrading the airline, but his work was interrupted by World War II.

Bob Six joined the Army Air Transport Command as a captain in 1942. He and American Airlines' C. R. Smith were the only two U. S. airline presidents to don uniforms during the war.

Living up to its name

After the war, Mr. Six spent much time trying to get Continental to live up to its broad-visioned name. Gradually, the airline was granted new routes—to New Mexico, Kansas, Los Angeles, Chicago, and the Pacific Northwest. In 1969, Continental got the go-ahead to fly to Hawaii. In 1974, it became truly transcontinental when the Civil Aeronautics Board permitted the airline to extend service to Miami.

Mr. Six, once wed to singer Ethel Merman, married television and motion picture actress Audrey Meadows 15 years ago. They have a home in Beverly Hills and spend time at their ranch near Ridgeway, Colo.

In an interview with a NATION'S BUSINESS editor at Continental headquarters near Los Angeles International Airport, Mr. Six talks about a management philosophy that has helped him build one of the most successful airlines in America.

Mr. Six, what sparked your interest in aviation?

The first time I took an airplane ride. That was in Stockton, and I paid either $2 or $5, I don't remember. Not long after that, Lindbergh flew to Paris, and I decided to be a flier.

How did you happen to get into the airline business?

In 1936, I had a good business selling Beechcraft in northern California, Oregon, and Washington. I had just met Tommy Ryan [Thomas Fortune Ryan III, who then owned Hanford Airlines, which later became Mid-Continent Airlines and is now part of Braniff Airways], and he told me of an opportunity to buy into the Southwest Division of Varney Speed Lines, which needed money to handle its newly won Pueblo-El Paso route.

It was through Ryan that I met Louis Mueller. Well, I bought into Varney for $90,000 and became general manager on July 5, 1936.

Were you still interested in becoming an airline pilot?

Yes, but Louis Mueller convinced me my future was in building and expanding an airline. So I threw all my energy into that. It was about this time that I became fascinated with Washington. We only had one-way radios in planes in those days, and Louis sent me to Washington to get approval for two-way radios, beacons, and other navigational aids.

And that became your responsibility?

Yes, and also to talk with the Post Office Department about mail contracts. In those days, we dealt with either the second or third assistant postmaster general. That gives you

an idea of how aviation rated at the time.

You have a reputation of running a highly efficient airline. How would you define good management as it applies to Continental?

In today's life, cost control, good personnel, and good staff work are the keys. But absolute cost control above all. Because of inflation, labor demands, rising fuel costs, and the tight margins under which we operate, absolute cost control is essential.

I would have to add that good communication, both with your stockholders and your employees, as well as with Washington, also is essential.

What is your business philosophy?

Well, I consider myself both an employee and a stockholder. I have an obligation to generate profits and to build and maintain a solid team. I think I have done both.

After many profitable years, things went sour for Continental in 1975. What happened?

We had to get rid of three 747's. We had bought them for a new Continental route to Australia and New Zealand that was twice awarded us by the Civil Aeronautics Board and twice taken away from us by President Nixon. We were given a route to Honolulu instead. We were able to operate profitably to Honolulu with the 747's until the price of fuel went out of sight.

It became unprofitable to fly the 747's only as far as Hawaii. These are really long-range airplanes that can only be profitable on long routes.

What did you do with the 747's?

We had to sell them. It was a heavy one-time loss, but we were able to wind up 1975 with a small operating profit from operations in 1975.

What do you look for in the people you hire?

First, of course, I want them to understand the airline business. We like our people to understand finance and marketing. Also, we want people who can get along with people.

Continental is big on productivity, is it not?

Oh, yes. We get high productivity from our people. And that comes from having good, loyal, and happy people. They want to put out. As part of this, we go out of our way to avoid internal corporate politics.

And how do you do that?

We just do not let it happen; we kill it before it starts. If we detect any internal politics, we nip it in the bud right away.

I tell anyone involved that politics is the best way to sidetrack a promising career, and I let him know that his future at Continental is based on achievement, not intrigue. It is best to deal with such activity early.

Some chief executives let factional maneuvers simmer, in the mistaken belief that such nonsense sparks initiative. They are wrong. It only splits a sound work team into private power blocs. There are none of these blocs at Continental, and as long as I am around, there never will be.

Do you have special techniques for getting the most out of your people?

Being honest with them is one. We always keep them posted on our plans. We let them know how their careers are tied into our plans. Above all, we make them feel that they are part of the team and that we all gain by working together.

You have a reputation for excellent labor relations. Does this still hold true?

Yes, though we have a new breed of pilot and flight attendant to deal with. Some of the pilots we hired in the mid-1960's are now handling negotiations for the pilots. These are fellows who came out of West Point, Annapolis, or the Air Force Academy —men trained in command. Some of them have master's degrees.

We are having some difficulties with the demands they are making, however. Let me give you an example. I have been told that one of the pilot negotiators has said: "If you don't have the money to meet our demands, go out and borrow it."

How do you handle that kind of demand?

You have to give them an education in finance.

What about flight attendants?

Well, female attendants have been building up longevity since we changed the rules and permitted hostesses to keep on working after they marry. The turnover used to be greater, and hostesses did not build up too much longevity.

So we have a different breed of negotiator from that quarter. They are excellent workers, but some of their demands are totally unrealistic.

Certainly, we are not against paying money for a job well-done. But we want more productivity at the same time.

Is it true that you make it a practice to meet with your employees as often as possible?

Yes, I meet with them as much as time permits. Last year, I visited all of our flight attendant centers. We scheduled a social hour at each one, and I had a chance to shake hands and meet about three quarters of all Continental flight attendants. After the social hour at each center, I talked for about 20 minutes and answered questions for about an hour and a half. I think that creates goodwill.

What about the pilots?

I see them whenever I can. Otherwise, I meet once a month with our pilot supervisor group. There are about 45 manager-pilots; we keep them fully informed so they, in turn, can keep all the pilots in the system informed.

Do you have an open-door policy that permits employees to come in to see you and go over their problems?

No. I would not get anything done. Instead, I go out to my employees. Just recently, I was flying back to Los Angeles from a stockholders'

> "I liked Howard Hughes very much, but he was not a man I could work for. . . . He matched flashes of innovative genius with lengthy periods of isolation. You cannot run a business on part-time inspiration."

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meeting in Denver, and we had some of our pilots aboard as passengers. Later, one of my assistants said: "You walked the aisle the entire two-hour flight from Denver." That is my kind of open-door policy. I used that opportunity to talk business with the pilots.

Have there been times when you were afraid Continental could not succeed?

At least twice. The first time was early in the game, when we had to make the big decision to go from single-engine to twin-engine airplanes.

Then, about five years ago, we had to modernize our entire fleet. That meant coming up with more than a half-billion dollars for new DC-10's and Boeing 727-200's. We not only had to raise equity capital and make bank loans, but we had to sell off 44 jets for $180 million. Then, having spent all that money, we were confronted by fuel prices going through the ceiling, devaluation of the dollar, double-digit inflation, and recession.

Let me tell you, the picture was not encouraging. We had to really scrounge to keep things going.

Speaking of fuel, what is the outlook as far as the airline industry is concerned?

Right now, we are paying roughly 32 cents a gallon. A year ago, it was about 25 cents. Each one-cent increase represents $3.25 million to Continental. We expect another increase by the end of the year.

The situation in the Middle East is very touchy. The airlines could be in for a rough time on fuel, both as to price and availability. Nobody wants to face up to the truth and tell the consumer that fuel is going to go up and that there will not be enough to go around.

You are high on perpetual maintenance, which Continental pioneered. How does that work?

Long ago, Continental figured out that pulling a plane out of service for a major overhaul was totally nonproductive. We figured, why not do the overhaul on a selective basis so you can catch serious problems before they happen?

Something like preventive medicine?

Exactly. We keep our planes under constant inspection, and we keep good records of every component that goes into a plane.



Mr. Six is as much at home talking jet engines with his mechanics as he is discussing airline finances with his board.

Have other airlines adopted this practice?

Some have. Our system is always being studied by somebody.

Continental for years chalked up more flying time per aircraft than other airlines. Does it still?

We are still right at the top. Only Western Airlines is ahead of us with the DC-10's. As we try to achieve better departure times, we sacrifice some utilization of equipment. But with better scheduling, we improve our revenue picture.

You have been known as a believer in low air fares. How about today?

Well, Continental is still the only airline that offers economy fares in addition to coach and first-class on all its flights. Our competitors, of course, also offer economy wherever our routes are competitive.

I have always felt that lower fares will bring more people. At the same time, you can go broke if you drop fares too low. I would not even be thinking about fare increases now if we could get fuel costs down and stabilized. Our productivity alone could probably cover the rest of our inflationary costs.

This fuel thing is what really hurt the industry more than any other single factor. I am not talking about those carriers that are overequipped, have too many airplanes, too much personnel, and too many bank loans. I am talking about well-run, well-organized airlines.

Can we look for more mergers in the airline industry?

I think there will be some major merger talks under way next year. Smaller carriers will not have the resources to survive. At Continental, we currently have three carriers under study. That does not mean we are talking to them; we are just studying them.

In the past, you have been quoted as saying you did not resent government regulation of your industry. How do you feel now?

I feel we are vastly overregulated, and the cost of overregulation is high.

For example, look at the current government requirements for reducing the noise of airplanes. It so happens that Continental is not affected, because our entire fleet meets the requirements. But if all the carriers that do not meet the requirements are forced to reequip their planes, it will cost a couple of billion dollars. And the public will not know the difference, because the reduction in noise will not be that great.

Since all the planes coming off the lines today meet these requirements, why shouldn't the government allow the airlines to go through a phaseout program?

This kind of government overregulation is hurting the consumer by forcing the airlines to raise fares.

But there are some aspects of regulation you do not oppose?

Yes. The government sets the route schedules, and that is good. If the government did not, you would always have some bright entrepreneur coming along and picking out the profitable routes and ignoring the others. There must be balance. People must be treated equitably.

Howard Hughes, in 1960, offered you the presidency of Trans World Airlines at three times your Continental salary. Why did you turn him down?

I liked Howard Hughes very much, but he was not a man I could work for.

He was a great individualist, a man who acted spontaneously on hunches. But he matched flashes of innovative genius with lengthy periods of isolation. You cannot run a business on part-time inspiration. You have to live with ups and downs. That was not Howard's personality at all, and I decided I did not want to be subject to now-and-then direction.

Howard was an outstanding aviator and a good friend. But our methods of business management were totally different. I would rather have had him as a friend for a long time than as a boss for a short time.

What helps you make decisions?

I demand good staff work on any complicated subject—for example, going into a tremendous new maintenance program or buying a fleet of airplanes. I study the proposals. I talk to my people. I analyze my options. And then I put it all together. Then I ask myself: "Is it going to make money for the company?"

Otherwise, I fall back on my basic experiences to help me arrive at decisions.

Once you make a major decision, what do you do?

Activate it and see that it is carried through. If you find you made a mistake, get out as quick as you can.

Do you fret over such decisions until they prove out?

No. You have to make decisions with confidence. I did worry, however, when the recession and those other problems hit just after we made the decision to modernize our airliner fleet a few years back. It was the kind of situation where you would wake up nights wondering: "Gee, was that a good decision?"

You see, we did not have all these adverse factors at hand when we made the big decision. If they had been at hand, we could have taken each one and said: "We can live through this one all right. This is going to change. That is going to change."

As it all turned out, it was a sound decision.

If we had waited until now to modernize the fleet, it would cost a billion dollars. By making the decision then, it cost half that amount. The same planes we bought then at $17 million, $18 million, or $19 million now cost $32 million.

Are you one of these executives who take work home?

No. When I go home, I try to cut myself off from the office. Except for emergencies, I discourage phone calls at home at night. I enjoy my home, traveling with my wife, and the various things that I do.

Are you a golfer?

No. Riding around in a golf cart takes too long. I don't have the time to take off in the afternoon and go to a country club.

What about exercise?

About six months ago, I went back to playing tennis. Old man's tennis—doubles. I manage to play about once a week, or every day on vacation. Audrey and I love the game.

And at our ranch in Colorado, I ride horses.

What do you consider the most satisfying experience of your business life?

Seeing my young employees come up and get ahead. I enjoy seeing them happy, watching their families grow. Since Audrey and I have no children, I get a great feeling from watching our young people develop.

How about disappointments?

The loss of the Australian and New Zealand routes was probably the greatest. Winning those routes twice, after years of work, and then losing them twice—this was a bitter and disappointing experience. On the final turndown, I called a special staff meeting and told my people the bad news. It was not easy.

As an early supporter of the supersonic transport, do you think the United States will ever fly one?

I do. Not alone, but in cooperation with the French and British, and perhaps the Germans. But it will have to be more economical than the Concorde which has been put in service by the French and British. It will have to be larger—something in the 250 or 350-passenger range. The technology developed by the Concorde will be useful. Because of the huge costs involved, three or four nations will have to pool their resources.

Against the backdrop of your 40 years in the business, what do you see in aviation in the years ahead?

I would say we will sit with the present generation of planes until about 1980 or 1981. By then, some of the carriers will need larger equipment—I would say, an enlarged 727 in the 175 to 185-passenger class. After that, I do not see any bigger airplanes for a while. The 747's and DC-10's will be adequate.

Down the road, I see the supersonic transport again. People will be willing to ride at the present speeds for another 20 years, and then they will want to go faster. That is when the SST will reenter the picture.

In view of rising fuel costs and other economic factors, is there a likelihood the government once again will have to subsidize the major air carriers?

Well, let us say that we get into an advanced breed of airplanes in the 1980's. We will probably be able to effect fuel savings of 20 to 25 percent. Thus, we could absorb some of the increases in price.

In answer to your question, no. Instead, I think you will see a drastic curtailment of service. Airplanes will be flying with 95 percent load factors. Flying might even be rationed. All this would mean great inconvenience to the public, you can be sure. Mail service would suffer. So would air freight. Discount fares would go out the window. Service to smaller cities would have to be dropped.

What is your retirement timetable?

I will stay on as chief executive officer until July, 1978. Then I take a substantial cut in pay. For the next three years, I would serve as chairman of the executive committee. In that capacity, I would probably work half-time, getting away from day-to-day operations. I could devote all my time to future equipment, planning, financing, and things of that nature.

What I would like to do is turn over to my successors a profitable, dividend-paying company that is well-financed and well-equipped.

I intend to do that. □

REPRINTS *of this article are available from Nation's Business. See page 72 for details.*

A SALUTE TO AMERICAN CITIES:

TAMPA

Succeeding Through Leadership

MANY PEOPLE IN TAMPA, if they happen to be out on a hot summer afternoon, walk with a slow, energy-saving gait. They call it the Florida shuffle.

This is a good example of humans adapting to the environment, not an example of lethargy. Tampa is far from lethargic. It is a city of energetic civic leaders and economic developers who know where they are going and when they want to get there, and who generally manage to keep their cool while striving to reach their goals.

Years ago, the Tampa area stopped trying to compete with Miami for tourists and settled down to doing what it does best—making, distributing, and shipping products; providing services; growing and processing food; and mining and shipping minerals.

Attractions for tourists

Not that Greater Tampa—meaning Hillsborough County, which has an estimated population of 640,000, including 299,000 people in the city of Tampa proper—will pass up opportunities to receive visitors. Certainly, the area has all the needed ingredients to attract tourists: abundant sunshine, ample lodgings, a semitropical climate, and the warm waters of the nearby Gulf of Mexico. There is a vigorous tourist promotion program.

However, Tampa is unabashedly an industrial city. Located on Tampa Bay, one of the nation's best natural harbors, the city also has outstanding air, rail, and truck transportation facilities. It is bidding to become a regional distribution center for the southeastern United States.

Tampa's character has been strongly influenced by Spanish, Cuban, and Italian immigrants, but the population mix includes a good cross section of Americans from throughout the nation. Also, many Tampans are from old Florida backgrounds, and the best qualities of southern hospitality and friendliness are strong in this land of blue sky, palmettos, and live oaks drenched with Spanish moss.

"We still have some small-town humaneness here in Tampa," observes Mayor William Poe.

Humaneness has not always held sway in Tampa. Spanish explorers, looking for gold or the Fountain of Youth early in the 16th century, found the area occupied by the Calloosa Indians. Hernando de Soto occupied the Indians' town, sliced off the chief's nose, and tossed the chief's mother to savage Spanish dogs.

For the next 200 years, Spaniards received less-than-warm receptions from the Indians, whose name for the area, Tampa, apparently meant a place to find firewood. No permanent Spanish settlement ever was established on Tampa Bay.

It was not until 1823, four years after the United States acquired the Florida territory from Spain, that the first settlers arrived. Robert J. Hackley established a plantation on the Hillsborough River near what is now downtown Tampa.

Long military influence

A year later, four companies of the U. S. Army arrived to protect the settlers against Chief Osceola and marauding Seminoles. The soldiers occupied the plantation and built a fort.

Thus began an association with the military that has had a continuing influence on Tampa and its development.

The city was occupied both by Confederate and Union troops during the Civil War.

In 1898, Tampa became the marshaling point for U. S. forces preparing to invade Cuba during the Spanish-American War. Among the temporary residents was Col. Theodore Roosevelt. Months before his Rough Riders charged up San Juan Hill, a group of them were having a big time one evening and rode their horses into a Spanish restaurant in Tampa. This feat is known locally as the Charge of the Yellow Rice Brigade.

PHOTOS: RICARDO FERRO



Tampa is a colorful mixture of today and yesterday, a cosmopolitan city of the New South that has a distinctive Latin charm. Moorish minarets capping the University of Tampa's campus frame the nucleus of a new central downtown designed for casual Florida living.

During World War I, Tampa was a major shipbuilding center. This subsequently stimulated port development. Shortly before World War II, a permanent air base was established just south of the city. Later, other air bases were established, and the area became a major training center for B-17 Flying Fortress bomber crews. Today, MacDill Air Force Base is headquarters for the U. S. Strike Command and is one of Greater Tampa's largest employers.

After World War II, many of the pilots, navigators, and bombardiers who had trained at the nearby bases returned to make Tampa their home. This influx of young men, trained as leaders and accustomed to taking the initiative, played a major role in Greater Tampa's economic development.

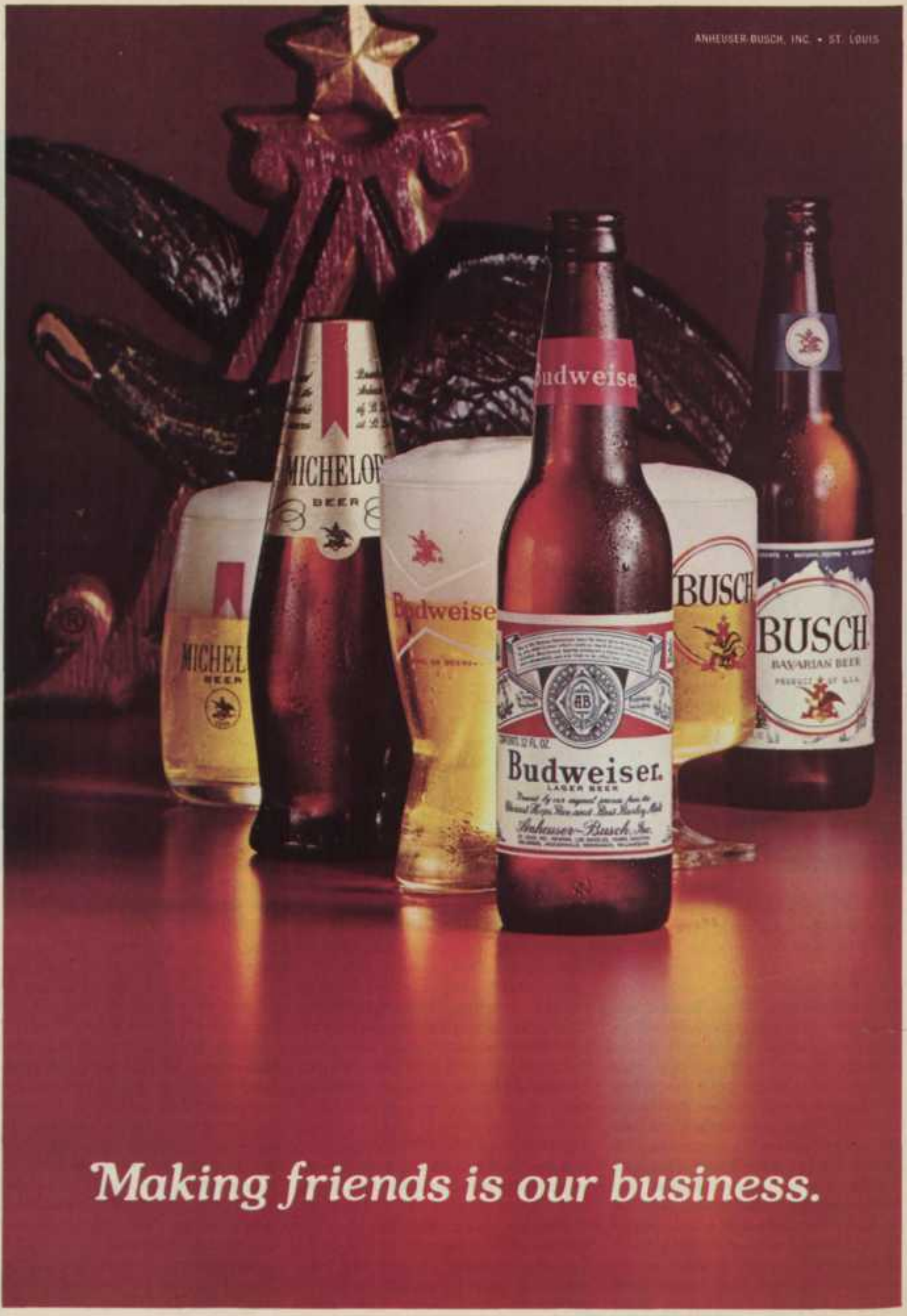
The coming of the railroad

Actually, Tampa is a late bloomer.

Incorporated in 1849, the town had a population of 885 at the start of the Civil War and 720 in 1870. Plagued with yellow fever and occasional hurricanes, Florida was generally bypassed by the nation's great population movements until two railroad tycoons saw opportunities to the south.

James M. Flagler pushed his railroad down Florida's east coast to the mangrove islets that became Miami, while Henry B. Plant aimed his rails southwestward toward Tampa. Tampa's rail linkup with Jacksonville and points north came in 1885, the same year Tampa city fathers established the Board of Trade, which later became the Greater Tampa Chamber of Commerce.

Development moved rapidly after that. The new railroad and an ice plant were launching points for a


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Tampa International is one of the world's most efficient air terminals. Approaching George J. Bean, director of the Hillsborough County Aviation Authority, is an unmanned train that whisks passengers to airplanes.



The Dark Continent, Busch Gardens, a theme park, is Florida's second most popular tourist attraction. Diners in the Old Swiss House or riders on the park's railroad can easily imagine that they are looking out at Africa.



Chester Ferguson, chairman of Lykes Brothers, Inc., is one of "the boys from World War II" who gave Tampa vigor and leadership that helped it compete with other booming cities in the South. The Tampa of today is a city that is attractive not only to industry, but to tourists and year-round residents as well.



A widely diversified economic base bolsters Tampa during downturns. Among many industrial facilities is this Chloride America plant. It produces automobile batteries.



Once the major employer in Tampa, the cigar industry is now mechanized. A few fine cigars, however, are still hand-rolled. Observing the art are Manuel Garcia, Jr. (left), president of Perfecto Garcia & Bros., Inc., and Doyle E. Carlton, Jr., chairman of Havatampa Corp.

fishing industry. And a steamship company owned by Mr. Plant began operations in time to provide service to an industry that would make the city famous—cigars.

Enter the cigar industry

The Board of Trade persuaded cigar makers in Key West to move to Tampa, and a new community was created a few miles outside the city to house them. Originally called Cubatown, it eventually became known as Ybor City, named after the first cigar manufacturer to move to the area, Vincent M. Ybor. Today, Ybor City is inside Tampa, not outside it.

Tampa's first cigars were produced in 1886. The city's population climbed to 2,376 by 1887 and to 5,532 by 1890. Influxes of Spaniards, Cubans, and Italians to work in the cigar factories swelled the population to more than 15,000 at the turn of the century.

While the cigar industry put Tampa on the world map, the dreams of Mr. Plant and the vagaries of nature were also taking a hand in the area's future. Mr. Plant developed Port Tampa, and the city soon had a wharf. A natural 20-foot channel was dredged to a depth of 27 feet in 1899.

A resort for the rich

Meanwhile, the pride and joy of Mr. Plant's business empire stood in splendor alongside the Hillsborough River—the Tampa Bay Hotel. Patterned after the Alhambra in Spain, this outstanding example of Moorish architecture cost $3 million by the time the last of its 13 minarets was completed in 1891. The ho-

tel was acclaimed as the world's finest.

The hostelry became a mecca for the rich, but its popularity was brief. Soon, it was half empty, and it became known as Plant's Folly. When the railroad tycoon died in 1899, his heirs sold the hotel to the city of Tampa for $125,000. Various concerns leased and operated the hotel until 1933.

In that year, the city leased it to the newly created University of Tampa for 99 years at $1 a year.

Today, the graceful landmark is the main building on the campus. The university's 2,000 students attend classes in rooms intended to accommodate wealthy vacationers of another era.

Any suggestion that the old building be disturbed is guaranteed to precipitate an uproar. "That building belongs to the people of Tampa," says Bruce Robbins, Jr., president of the Greater Tampa Chamber of Commerce. "You are not about to tear it down."

Actually, says the university's president, B. D. Owens, that would be difficult to do. When the hotel was being constructed, Mr. Plant was converting his railroad from narrow gauge tracks to the standard type, and old tracks were hauled to Tampa and used as structural steel. Some walls in the hotel are 32 inches thick and reinforced by rails.

Mining—a fertile field

Although the resort hotel boom was short-lived on Tampa Bay, the region was yielding up a much greater treasure—phosphate rock used in fertilizer. A deposit was discovered while the port was being deepened in 1883, and much richer deposits were found inland. Mining began in 1888. A third of the nation's richest phosphate deposits lie near the surface in central Florida. Phosphate shipments account for 95 percent of the tonnage leaving Tampa, the nation's eighth largest port.

Another assist from nature came in the winter of 1894-95, when a devastating freeze decimated the citrus industry in the northern part of Florida. Growers moved further south, and citrus became a major crop in the Tampa area, which has a 12-month growing season.

By 1910, Tampa's population was 37,782, more than double what it had been ten years earlier. But growth slowed.

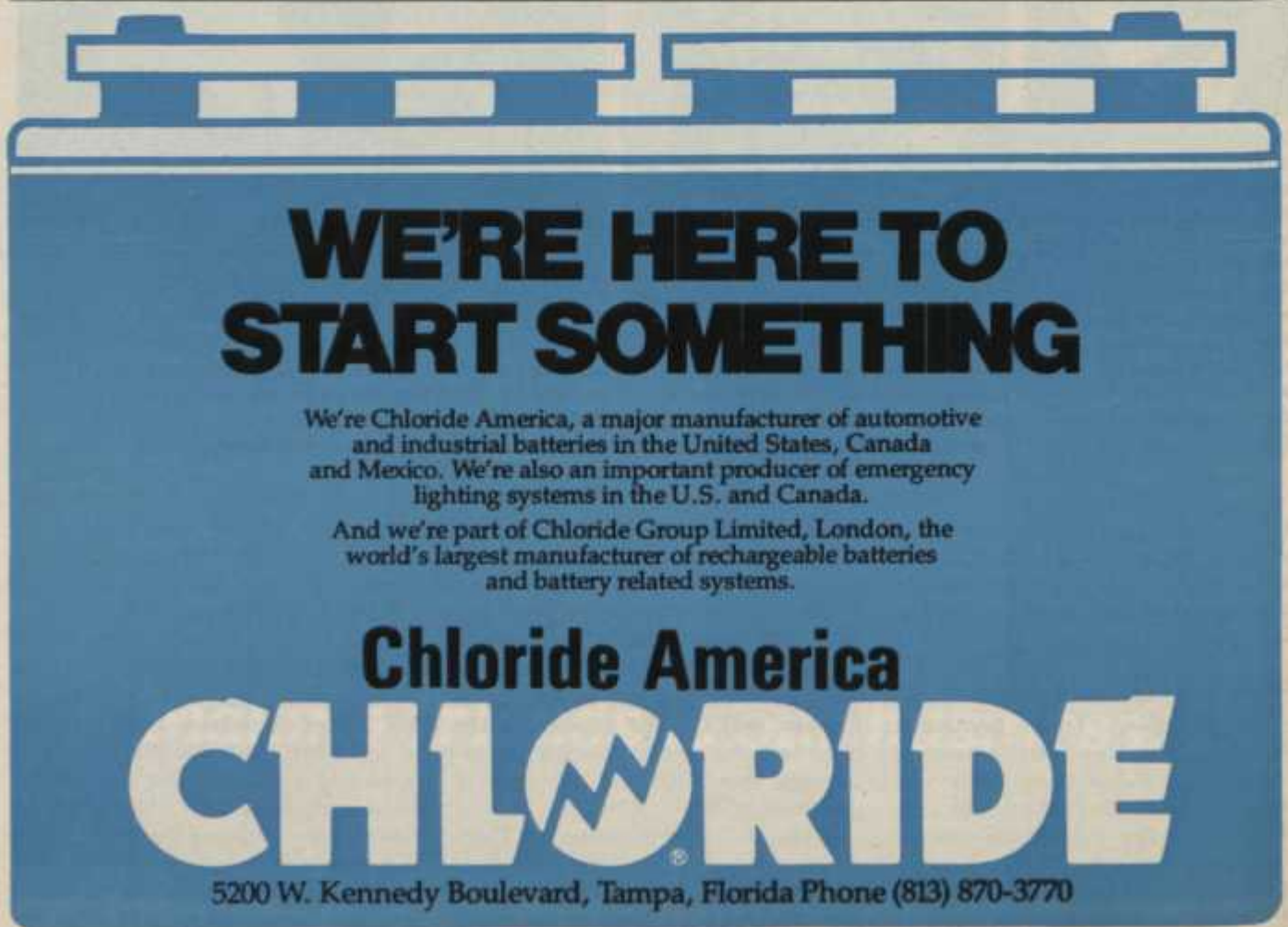
Tampa was not untouched by the Florida land boom of the 1920's. D. P. Davis, a Tampa native who had been a successful real estate operator in the Miami area, came home to create Davis Island by dredging in Tampa Bay. When the boom fizzled, Mr. Davis lost his island, which today is a swank residential spot.

Heading for Europe to try his hand at developing there, Mr. Davis for some reason was walking a narrow ledge from porthole to porthole on a liner in mid-Atlantic one evening. He lost his balance and fell into the sea. Rescue efforts were unsuccessful.

A struggle with crime

In the 1930's, organized crime, rooted in the Ybor City section, controlled Tampa.

"I came to Tampa in the middle 1930's," recalls James A. Clendinin,



chairman of the editorial board of the Tribune Co., publisher of the city's two newspapers. "It was one of the rottenest cities in the country then."

When it became necessary to call in the National Guard on election day in 1935, civic leaders decided that enough was enough. Voting machines were installed to end stuffing of ballot boxes, and a crime commission was created which cleaned up the city.

The 1940's came, and with them came the bustle of World War II. Afterward, there was the postwar influx of new residents. The city was ripe for a new surge of development.

"Tampa was a pretty countrified place in those days," says Nova Scotia-born William C. MacInnes, chairman of Tampa Electric Co., who arrived in 1953.

The Committee of 100

An event that was to prove enormously significant to Tampa's future took place in 1952. W. Scott Christopher, executive vice president of the Greater Tampa Chamber of Commerce, put together the Committee of 100, leading businessmen who took on the job of directing the economic development of the area.

The committee's most important achievement was at 2,000-acre Henderson Field, a World War II training base given to Hillsborough County by the federal government. Public officials turned the land over to the committee for industrial development.

Although the area already had the University of Tampa, that university's downtown location limited expansion possibilities. Also, the university was a private institution, and there was a desire for a publicly financed university. The Committee of 100 went after a state university and got one, the University of South Florida, which now has an enrollment of 23,000. The committee gave the state 1,000 acres of Henderson Field for a campus.

The committee then created Tampa Industrial Park on the remaining acreage and went out to sell sites. After recovery of development costs, all profits from land sales went into Hillsborough County's coffers.

The first occupant of a site in the industrial park was a Schlitz brew-



In Tampa, the nation's business is conducted at the Austin Center.

National firms have been attracted to the Austin Center because it has a lot to offer for almost every kind of business. It's conveniently located just 3 minutes from the Tampa International Airport with immediate access to the Interstate system linking three major cities.

The Center offers more than 300,000 square feet of office space (over 95% occupied) with an additional 300,000 square feet on the drawing board to accommodate requirements of present and future national and international tenants. Plans also include a 500 room convention hotel to be started early in 1977.

And only recently two major banks have made applications to the authorities to move to the Austin Center, adding to its growing list of prestigious tenants.

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A spanking new downtown area is in Tampa's promising future. By 1990, an estimated $300 million in new construction will add to the existing skyscrapers. But the palm-lined promenades on the Hillsborough River will remain.



Mayor William Poe (left) and Louis Benito, an advertising executive and incoming president of the Greater Tampa Chamber of Commerce, savor the car-free atmosphere of downtown Franklin Street Mall, an example of city planning for livability.



A major coup for Tampa was getting the legislature to locate the new University of South Florida near the city. With USF President Cecil Mackey (center) are H. L. Culbreath, Jr. (left), chairman of the Committee of 100, and W. Scott Christopher, executive vice president of the Greater Tampa Chamber of Commerce.



Arts Council Chairman Mrs. Ruthanne P. McLean and Symphony President Arnold C. Kotler stand before 8,000-seat Hixon Convention Hall, a sports and exposition center. Construction of a cultural complex starts soon nearby, on the riverside.



A new state fairgrounds is rising on the outskirts of Tampa. Bruce Robbins, Jr. (left), chairman of the building committee, shows plans for new unit to businessman Robert Thomas, a civic leader.

ery. It was followed by Anheuser-Busch, which not only built a brewery, but also opened a theme park, The Dark Continent, Busch Gardens. This theme-park-within-an-industrial-park, where you can see African animals roam while you ride a little railroad and where you can amuse yourself in a variety of other ways, is Florida's second most popular tourist attraction.

Downtown redevelopment

Except for a few acres, Tampa Industrial Park is now full. But ample acreage is available in other areas, as Tampans work toward making a diversified economy even more varied.

A major project now receiving the attention of the Committee of 100 and other Tampa leaders is the redevelopment of the downtown section.

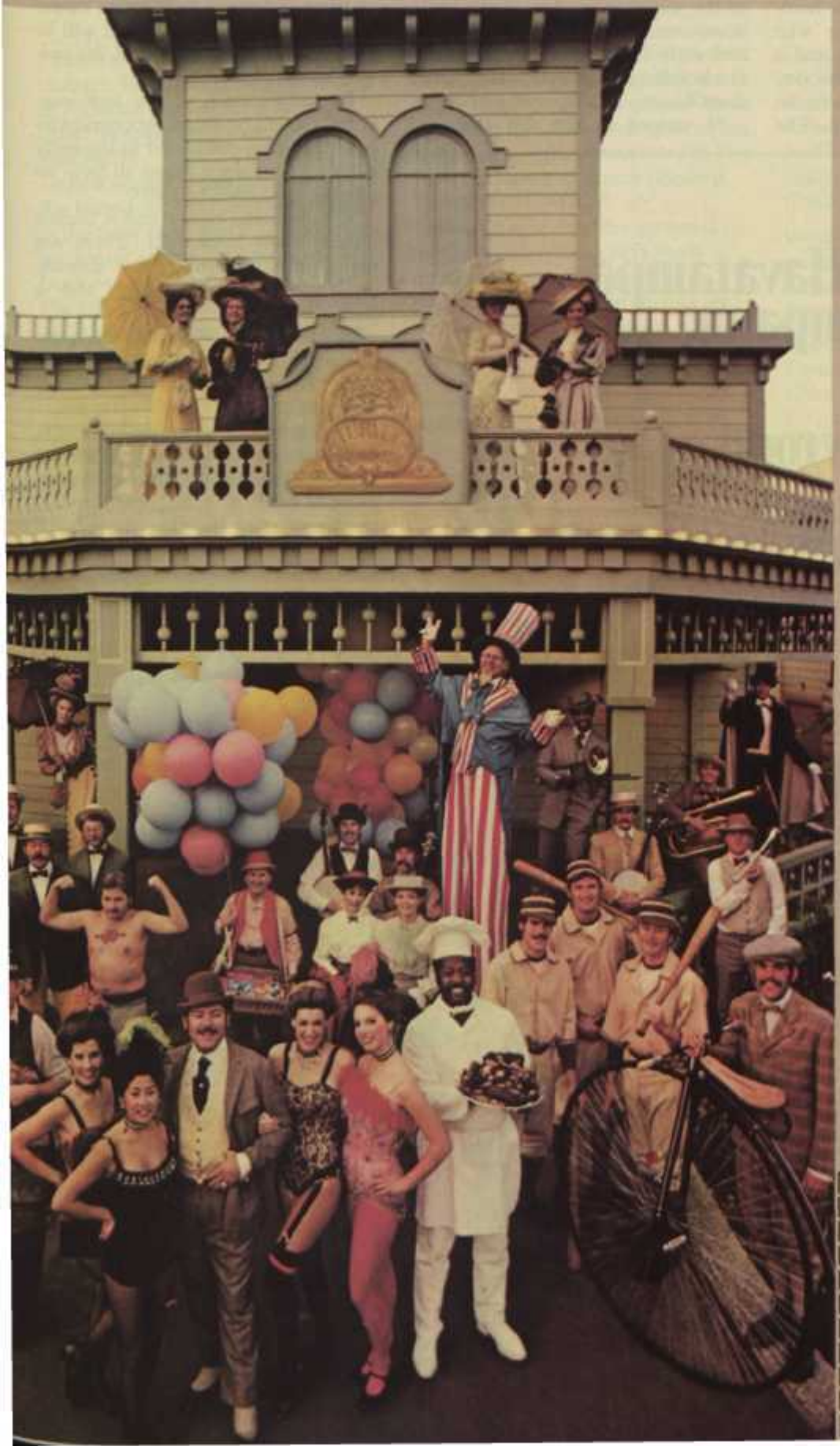
George H. Gage, Jr., president of General Telephone Co. of Florida, recalls that one day, in his penthouse office overlooking the harbor, "I started the 'if game'—what if we built a new headquarters building here. Or here."

Mr. Gage decided that it would be difficult to make a decision on building in downtown Tampa because of haziness on what other business leaders thought about the section's future. He contacted other business leaders, and one thing led to another.

In 1973, Mr. Gage's company, along with Lykes Brothers, Inc., First Financial Corp., and Freedom Federal Savings and Loan Assn., bought nine contiguous blocks in the downtown. The object: coordinated development.

This in itself is not unusual, but the companies' method of disposing

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Then hold her in your arms as you float in a barrel through a giant aviary and, suddenly, plunge down the falls!

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This is the place—rather, places. A gliding boat cruise through beautiful lagoons. Cool green nooks by a waterfall. Pathways through rare plants filled with exotic birds. And broad lawns surrounded with the music of strolling entertainers.

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of land they are not going to utilize is certainly not customary. The land will be sold at cost, even if it could be sold at a profit.

To get started, the group retained C. L. Miller, a Massachusetts Institute of Technology professor who was a recognized city planner and a Tampa native, to come for one day to advise the new landowners on possible uses of the property. The one-day assignment turned into a two-week project, then a yearlong affair, and then a more or less permanent job. Mr. Miller today is planning not only the best utilization of the nine blocks, but of the entire downtown. Plans call for new federal and state buildings, new private office buildings, and, eventually, apartment houses.

"I wanted to see this through," Mr. Miller says. "I did not want to just give them some nice plans and charts and then leave."

About $300 million in new construction is involved in the creation of what is termed a walkable downtown. Everything constructed will be within a ten-minute walk of the current center of downtown.

By 1978, much of the new construction will be rising. Approximately half is to be completed in the early 1980's, and Tampa hopes to have an all-new downtown by 1990.

A convention center and a library already have been built. There are plans for a performing arts theater, an auditorium, a museum, and a park.

Says Mrs. Betty Castor, chairman of the Hillsborough County Commission: "A downtown mirrors the total community."

Tampa was the first city in Florida to take advantage of the availability of federal funds for the redevelopment of blighted areas, and some of the worst slum buildings have been razed and replaced by public housing.

A major figure in all this activity has been Chester H. Ferguson, a prominent lawyer and chairman of Lykes Brothers, a company with holdings and operations in diverse fields. Mr. Ferguson says he was among "the boys from World War II who rolled up our sleeves and took off."

An audience for ideas

Tampa was ready for the new blood, he says—"There is always an audience here for someone with an idea."

A prime example of the new blood was Jim Walter, a onetime truck driver who accurately foresaw a big potential for shell homes. He went into the business of manufacturing them, and he prospered. His Tampa-based firm grew to be the diversified Jim Walter Corp. Mr. Walter, who is chairman and chief executive officer, has kept the company headquartered in Tampa.

"You could not ask for a better location for corporate and regional headquarters," says Tampa developer Alfred S. Austin. "The surface of opportunity for bringing headquarters here has not been scratched yet."

George M. Steinbrenner, chairman

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Look Twice at Florida... Tampa's Comin' On!

Florida is changing fast. And with that change, Tampa's coming on strong as Florida's #1 City for a variety of good reasons. Here's why:

GROWTH

Tampa is smack-dab in the middle of the fastest growing region in Florida — the Suncoast. And that makes for an unprecedented potential for business success. Whether you're starting a new business, or expanding an existing one, opportunities have never been better.

CONVENIENCE

Tampa is Florida's most convenient city. Convenient for business, because there's plenty of industrial/office/warehouse space available and an ample labor market. Convenient for pleasure, because you're close to everything that Florida is famous for — beaches, golf, tennis, fishing and major attractions like The Dark Continent at Busch Gardens.

TRANSPORTATION

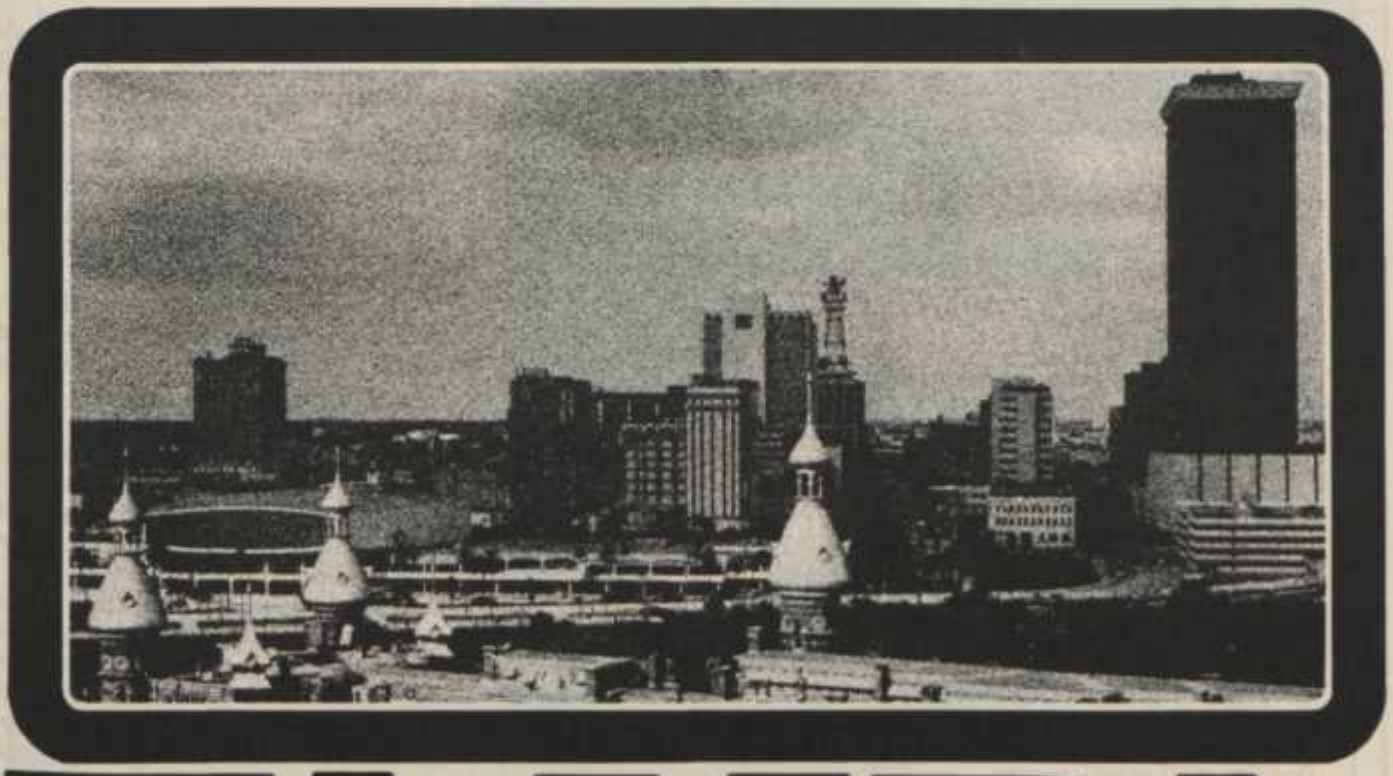
Tampa's transportation system is highlighted by the world's most modern airport with 5 million passengers a year. And Tampa also has the nation's 8th largest deep-water port, two major bus lines, Amtrak, and an excellent highway system.

AND, SPORTS

Tampa has arrived on the big-time sports scene. For football, it's the Tampa Bay Buccaneers, latest addition to the NFL. For soccer, it's the Tampa Bay Rowdies, 1975 North American Soccer League Champs. And for baseball, Tampa is the Spring Training Headquarters for the World Champion Cincinnati Reds.

We could go on and on about Tampa, and if given half a chance, we will. For further information on **Why Tampa's Comin' On,** write:

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TAMPA

of Cleveland-based American Ship Building Co. and principal owner of the New York Yankees, came to Tampa several years ago to buy a shipyard. He got more than he bargained for—a permanent change of address. Tampa is now his home.

"The thing I like best about Tampa," he says, "is that I see the sun every morning when I get up."

Another thing he likes about the city is its frequent and convenient air service.

Tampa's air terminal is considered one of the world's best for passenger convenience. The $86 million jetport was completed in 1971 and designed for easy expansion. More than five million passengers arrive and depart there annually.

For many of the arrivals, a visit to Ybor City is a must. Urban renewal has stripped away its slums but left intact its colorful downtown section and many of the original cigar factory buildings.

An Ybor City landmark is the Columbia, said to be the world's largest Spanish restaurant. It covers an entire city block.

Harris H. Mullin, owner of Trend Publications, Inc., has bought the original Vincent M. Ybor factory. He is spending $750,000 to turn it into quarters for a collection of restaurants and boutiques.

It was on the steps of this factory that Cuban patriot Jose Marti made a famous address which prompted cigar plant workers to contribute heavily to funding the Cuban revolution against Spain. Angry at the residents of Ybor City, Spanish officials embargoed tobacco shipments to Tampa. But a thrilling, last-minute dash by two of Henry Plant's steamships brought in enough Havana wrapper to see the cigar makers through the short U. S. war with Spain.

A more recent blow to Tampa's cigar industry came when Fidel Castro grabbed power in Cuba. Cigar makers "paid a bitter price" for the break in relations between the U. S. and Cuba, says Manuel Garcia, Jr., president of Perfecto Garcia & Bros., Inc. The supply of Havana wrapper was cut off.

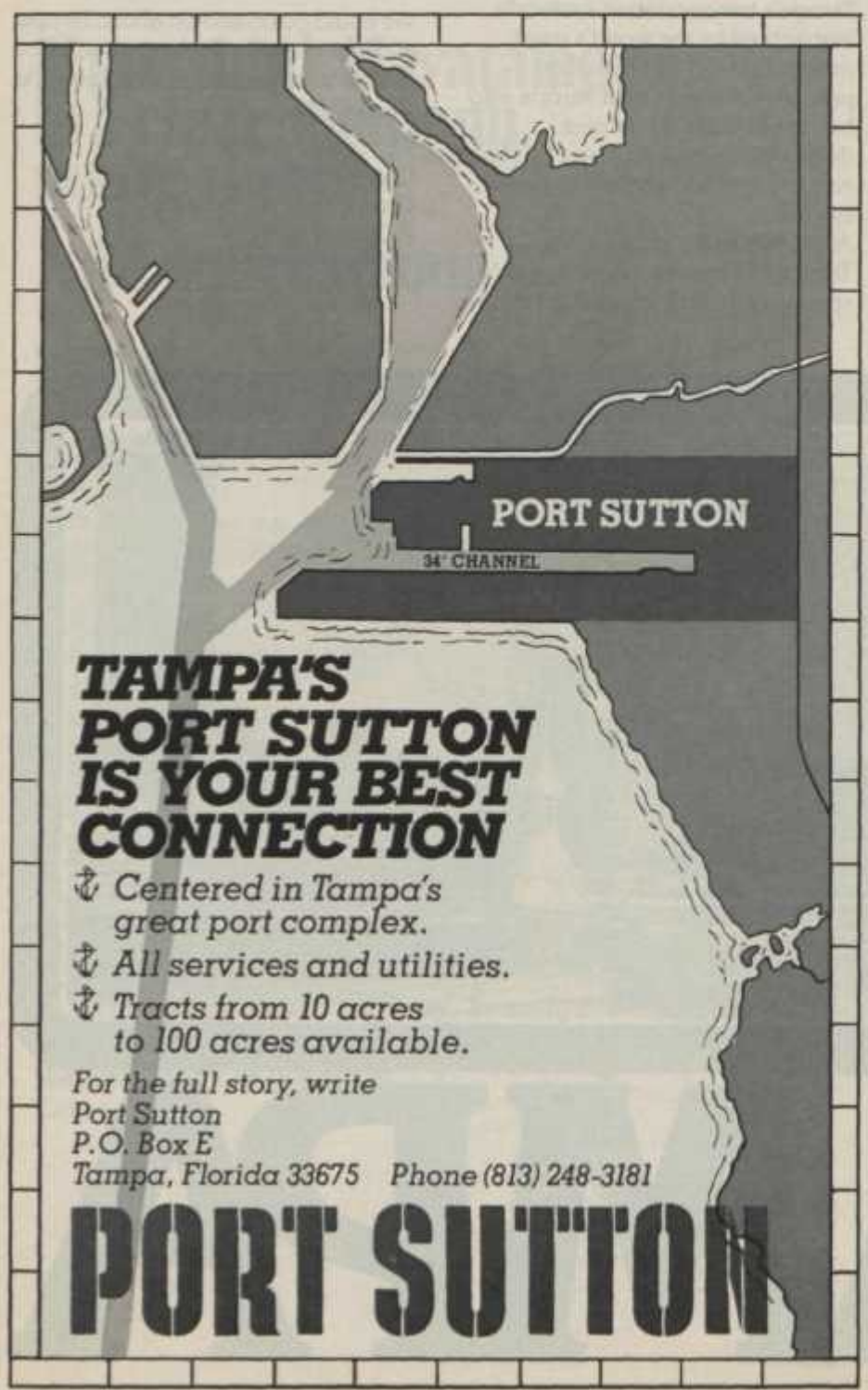
However, the cigar manufacturers have since found sources of prime tobacco in Central America and islands in the Caribbean.

A third of Tampa's work force once was involved in cigar making. In 1927, there were 159 factories, with 13,000 employees, turning out 500 million cigars annually. The cigars were hand-rolled.

Today, there are only four cigar factories in Tampa. Employment is down to 2,100, representing less than one percent of the nonagricultural work force. Thanks to machine production, these 2,100 workers turn out 750 million cigars annually. Only a few workers still hand-roll cigars.

800 manufacturers

In the Tampa of 1976, there is no single dominant industry. Some 800 separate manufacturing concerns are in operation in the Greater Tampa area. In addition to tobacco products, major industries include phosphate mining and processing; build-



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*United States Census of Manufacturers

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ing materials; electronics; nuclear steam generators; cans for beverages; seafood, vegetable, and citrus processing; meat-packing; glass and plastic products; ship repairing; and brewing.

One of the city's newest products is wine from citrus and exotic tropical fruits. The region also claims to be the world's largest producer of tropical fish. Hillsborough County ranks 44th among U. S. counties in value of agricultural products.

There are 215,000 jobs in the Greater Tampa area. Of these, 28.5 percent are in the wholesale and retail trades. Next come the service fields, with 18.8 percent of the jobs; government, with 17.6 percent; and manufacturing, with 13.9.

An estimated 12 to 14 percent of the labor force is unionized.

Charles L. Cowl, director of the Hillsborough County Central Labor Council of the AFL-CIO, observes, with some hyperbole, that "Florida is the best place in the world to live in but the worst in which to earn a living."

Not only does the Tampa area attract so many skilled workers that supply exceeds demand, but Mr. Cowl reports a growing number of retirees are willing to work part-time for comparatively low pay, so they can get "track money."

Also, he is unhappy because Florida is a right-to-work state which forbids making union membership a condition of employment.

Plenty of enthusiasm

Business leaders, however, see the labor supply as one of a number of factors making for a bright future for Greater Tampa.

Clearly, Tampans do not lack for dynamic leadership and enthusiasm about their city.

A few years ago, some members of the Chamber of Commerce flew to an Alabama city to try to convince an insurance company there that it should move to Tampa.

The directors were tempted, but they declined.

However, the president of the company was highly impressed with the Tampans and what they told him about their city. So much so, in fact, that he resigned, moved to Tampa, and started what is now the very successful Founders Life Assurance Co. of Florida. ☐

How Sound Planning Helps a New Business Succeed

BY F. GRANT WAITE

Here is expert advice on ways to shorten the odds against the entrepreneur in today's business environment

IN THE BEST of times, a new business has a hard time. In good years as well as in bad, the failure rate for new enterprises is appalling.

And yet, would-be entrepreneurs dream. How do you successfully couple the dream with reality?

The answer is simple: You bring the dream down to earth with a plan. A good plan.

As a certified public accountant, I have taken particular pleasure in watching the growth of enterprises which followed such plans.

The preparation of a well-organized and properly documented business plan will, at a minimum, accomplish two important objectives.

First, the mental exercise required to reduce a plan to writing often highlights critical business areas that have been overlooked or neglected. For example, I recall one entrepreneur who had to revise his sales estimates sharply downward when he made an in-depth analysis. He had discovered that his suppliers were not capable of supplying key components for the product in quantity sufficient to support what was otherwise a realistic sales projection.

Second, a well-organized and well-documented business plan will save you many hours in telling and retelling your story to lawyers, accountants, and potential lenders or equity investors.

Steps you should take

While each plan will, of course, vary in accordance with the type of endeavor pursued, you should take the following steps in drawing up any business plan:

- Prepare a summary of the venture idea—limit: one page.
- Describe the key objectives of your new company, particularly those relating to sales and profitability.
- Prepare a one-page summary of the functional specifications of each product, including photographs, art renderings, and profiles of key patents whenever possible.
- If you plan to manufacture a product, describe the process and facilities involved. List the technologies and skills you will use. Specify key suppliers and alternate sources of supplies.
- If you plan a service company, describe the service and list your qualifications. Perhaps you have surveyed a market for your services. If so, list the results.
- Provide details of your marketing analysis. Confirmation from an outside firm is often helpful. List competitors, briefly analyzing their relative strengths and weaknesses; anticipated selling prices of your products, comparing them with competitive products; and actual or potential customers. Identify expected channels of sales distribution and indicate whether you expect to sell direct, through representatives, or as a supplier to other equipment manufacturers.
- Develop pertinent biographies on key personnel



The lonely fledgling entrepreneur



A sound business plan to guide you

and indicate their positions and anticipated contributions to the company.

- If the business is already operating, present historical financial statements that include the latest information.
- Project financial statements and cash flow for the next three to five years. The first few years' statements of operations and cash flow should be presented on a monthly or quarterly basis.
- Describe present and anticipated financing arrangements.

Fund-raising problems

If you intend to use the business plan or similar document in attempting to raise funds, it is imperative that you consult your attorney at the outset, since complex federal and state regulations govern the use of a plan for this purpose.

Most states require a company to be "in good standing" before even a private, intrastate offering of securities can be legally made.

Recently, for example, a Massachusetts corporation was required to announce its willingness to repurchase a $500,000 offering of preferred stock. Why? The company had failed to file a relatively minor informational return with the state on a timely basis prior to the offering. Fortunately for the company, most of the preferred stockholders chose not to accept the repurchase offer.

Remember that a good business plan must be relevant to the moment. No sooner than you have completed the document, changing circumstances probably will have already rendered sections obsolete. Accordingly, it is essential that you strive to keep your plan as up-to-date as possible.

Outside advisers

Only the loneliness of the long-distance runner exceeds that of the fledgling entrepreneur. The typical new venture is started by one or a few individuals whose talents lie in specific fields such as engineering or marketing. The new enterprise usually cannot afford to hire a topflight financial man or competent in-house experts in law, insurance, or government regulation. Problem-solving is done in a vacuum, without the benefit of consultation with other seasoned executives and frequently with little in the way of support staff.

The cultural shock to an entrepreneur with a background in big business is often traumatic. Since the new venture in its precarious initial stage is seldom afforded the luxury of major mistakes, this lack of in-house experts occurs at the point when those talents are most sorely needed. The problem can be alleviated to a great extent by careful selection of outside professional advisers and consultants.

Probably the most important factor in your selection process should be choosing firms that possess the in-depth capability to handle your legal, banking, accounting, and technical needs, now and down the road. Changing advisers in midstream can be hazardous. Once you have selected your team of professionals, do not keep them strangers. Your interests will be best served through a free interchange of thoughts.

Your tax choices

You and your team of professionals should now be ready to plan the organizational structure and initial tax choices for your company.

Should you select the individual proprietorship, partnership, or corporate form?

If you decide on the corporate form, for example, you may have more than one choice as to how you will pay taxes. You may elect to form a regular corporation, in which case the corporation is treated as a separate taxpayer and pays tax on income. Or, if your business is eligible, you may elect to form a Subchapter S corporation, so called after a section of the Internal Revenue Code designed to encourage formation of small firms.

A Sub S business can operate in the corporate form but not pay tax as a separate entity. The Sub S reports its taxable income or loss, and the shareholders report their proportionate share of this income or loss on their personal tax returns. Among other things, in order to qualify for Sub S status, a corporation must have no more than ten stockholders and must be an active business—not a passive collector of investment income.

Which corporate form to choose? Your accountant will provide you with a set of figures for an assumed set of facts, thus laying out for you in columnar form your gains or losses under each choice.

Cash or accrual?

Should you elect the cash or accrual method of accounting for tax purposes?

Again, your accountant will help you with the decision. The correct option depends on the nature of your business.

Under the cash basis, you report income in the year it is received and expenses in the year actually paid. You have the option of postponing income by putting off its receipt. You may accelerate the payment of an expense in a year in which the deduction might lower

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These questions used to really stump me. That was six years ago.

My wife and I then lived in Denver, Colorado, at 2545 South High Street. We paid $135 a month rent for a cramped, tumbled down house. My wife was expecting our second child and we were flat broke. I felt desperate and forced into a corner. I had to borrow $150 from my father and another $150 from my father-in-law just to buy the groceries and pay the rent. If that wasn't enough, I was several thousand dollars in debt.

Things are much different now. Last year I could have retired and lived off the income of my one million dollars in real estate holdings. (Incidently, almost all of the income from the real estate is tax free).

Since I had worked 20 to 40 hours a week, I know that I didn't work even 10 times longer or harder than you. And with my C-average from Ames High School (located in Ames, Iowa). I'm quite certain that I'm not any smarter than you.

If hours, efforts, or brains are not what separates the rich from the average guy who is swamped with debts and very little income, then what is?

I learned the answer to that question from an old fellow in Denver. This fellow worked in a drug store stocking the shelves. Very few people knew that he had $200,000 in the bank, all of which he had earned starting from nothing.

Within a year after meeting him, I was told and shown the same thing by a young man who had recently earned over a million dollars. By this time, I began to realize that what I was being shown was truly a remarkable and workable way to grow rich.

I began to apply the principles and me-



MARK O. HAROLDSEN
32 Year Old Millionaire

thods I had been shown. The results were amazing. I couldn't believe how easy it was, in fact it seemed too easy.

But then I met an elderly lady (83 years old) who, although not very smart, has made $117,000 using the same formula.

I then figured my beginning wasn't luck.

For three and one half years, I worked hard to refine and improve on the formula that I had been shown, so that it would be easy to get quicker results.

As I did this, my assets multiplied very rapidly (160% per year) to the point that I didn't have to work any longer.

I guess I am bragging now, but I did start spending alot of time in our back yard pool, traveling around the country, and doing a lot of loafing.

Then one day a friend asked me how he could do what I had done.

So I began to outline the formula that I had improved to show him really how simple it was, and how he could do the same thing.

By the next time he approached me, I had written almost a complete volume on the easy way for him to copy my results.

I wrote this in simple, straight forward language so anyone could understand it.

This time my friend's questions were very specific. (He had already begun buying properties with the formulas I had been giving him). Now he had a property he wanted to buy, but was out of cash. How could he buy it?

I not only showed him how to buy without cash, but by the time the deal was complete, he had $5,000 cash in his pocket to boot.

I also showed him how to buy a $26,000 property for $75 down.

You, or anyone, can do exactly what I did, or my close friends have done; if fact, you may well do it better. (I began doing this in my spare time only).

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When you send me a check or money order for $10, I will send you all my formulas and methods, and you are free to use them anywhere and as often as you would like.

Now if you were a personal friend of mine, I know you would believe me and not need any kind of guarantee, but since you don't know me personally, I will guarantee that you will be completely satisfied and that my formula will work for you if you apply it. I will back up that guarantee by not cashing your check for 30 days, and if you for any reason change your mind, let me know and I will send your uncashed check back.

You may well ask, why am I willing to share my formula for wealth? Well, because many of you will probably seek further consultation and direction from me as your wealth rapidly grows and my consultation fee of $75.00 an hour adds to my fortune.

But you shouldn't care if I profit as long as you profit. And I guarantee that you will.

By the way, if you feel a little uneasy about sending me a check or money order for $10.00, simply postdate it by 30 days which will completely eliminate your risk.

REFERENCES

Community Bank & Trust, 940 W. South Temple, Salt Lake City, Utah
Zions Bank & Trust, 1 South Main Street, Salt Lake City, Utah
Charles F. Huber, Certified Public Accountant, 220 South 2nd East, Salt Lake City, Utah

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your tax bill. Under the accrual basis, you report income as it is earned, whether or not you have been paid. Same with expenses; you deduct them in the year they are incurred.

Should you elect to issue Section 1244 stock, in which an ordinary loss may be claimed for your equity investment if the company fails?

What employee benefit programs should be provided by the company for you and your employees? Should immediate attention be directed to Internal Revenue Service-qualified pension and profit-sharing plans?

Delegate responsibility

The above listing of choices which you face is a sample designed to make two points:

1. Starting a business is a complex task.
2. You need talented professional help.

Do not be fooled into believing that, if you have a good product, the rest will take care of itself. Concentrate your talents in your strongest area—engineering, sales, production, etc.—and delegate responsibility for other areas to competent employees or hired professionals.

You might consider making appointments to your board of directors from the ranks of retired senior executives or college professors.

Management information

Early in your plan, you must provide for the orderly collection and recording of certain data and transactions. This will be your accounting system, one of the most neglected areas in the process of establishing a new business.

An effective accounting system serves two basic purposes.

First, it produces accurate, timely management information.

The company's backlog, its shipments, the status of accounts receivable and payable, cash balances, and cash requirements are data that should be produced by your accounting system to assist you in managing the company. If you manufacture a product, you must establish a cost accounting system to determine the labor, material, and overhead involved in production. This will provide a basis for pricing your product and for valuing your inventories. Periodic preparation of financial statements is also a requirement of an accounting system.



Voluminous reports mandatory

Reporting to others

The second basic purpose of an accounting system is to provide for periodic reporting outside management.

Generally, reporting to outsiders, such as stockholders and lenders, takes the form of basic financial statements. But a new businessman soon learns that many other people are interested in obtaining information about his company. By law, detailed compensation records for all employees must be maintained to provide for reporting to the employees their gross wages and deductions, as well as to make it easier to accurately remit employee and employer payroll taxes to various federal and state agencies.

If you plan to transact business with the government, you will be required to segregate and allocate costs in a manner determined by complex government regulations. Voluminous detailed records and related documentation must also be maintained for federal and state income tax purposes. Income tax requirements may be compounded when the accounting on certain transactions for book and tax purposes differs.

You may have elected to engage in a business which is subject to local, state, or federal regulation and perhaps a combination thereof. If so, your accounting system must ensure compliance with certain regulations and the filing of required reports. Other government agencies concerned with sales taxes, unemployment compensation taxes, and wage and hour laws must also be considered. To ignore the requirements of reporting to the various external parties is almost certain to create lamentable difficulties for the new businessman.

Despite the odds

In short, early establishment of a sound accounting system is of major importance to the success of your enterprise. The actual transaction processing mechanism will depend on the nature of your business. However, it is essential that the system be designed so that any change required to accommodate projected growth can be accomplished with minimum disruption to the ongoing accounting process.

Undeniably, the odds are against the entrepreneur, particularly in today's volatile business environment. But the person who starts a business is one of a hardy breed, willing to try to succeed in spite of all obstacles.

Sound planning will increase the new enterprise's chances of success. □

MR. WAITE, *a partner in the international accounting firm of Peat, Marwick, Mitchell & Co., is in charge of the small business department of the firm's Boston office. He is active in the Smaller Business Association of New England. Reprints of this article are available from Nation's Business.* *See page 72 for details.*

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Chamber of Commerce, Wichita, Kansas: "Very well received."

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The Growing Threat of Public Employee Strikes

An expert examines an issue that has tremendous importance to business and to the country



Robert Thompson says that public employees should be allowed to discuss work conditions and pay with management but that collective bargaining is not the proper approach. He advocates a system called meet-and-confer.

ORGANIZED LABOR is again pressing for one of its perennial goals—a federal law giving full collective bargaining rights, accompanied by the right to strike, to state and local government employees.

For business, this invokes disturbing memories of illegal public worker walkouts in Baltimore, Kansas City, New York, Pittsburgh, and San Francisco, and in Massachusetts, which had a statewide strike by state employees.

Thirty-seven states and the District of Columbia have statutes giving some measure of labor-management negotiation rights to at least one category of public employee. In seven of the states, strikes by public employees are permitted under certain circumstances. The seven are Alaska, Hawaii, Minnesota, Montana, Oregon, Pennsylvania, and Vermont.

The Census Bureau says that 51 percent of the 9.2 million full-time state and local government employees are now members of labor unions or employee associations.

Roughly 11,000 of the nation's 78,000 local governmental jurisdictions meet with their employees in some form of labor discussions. Thirty-eight hundred of the 11,000 conduct collective bargaining sessions.

Organized labor is pressing for passage of either of two major public employee collective bargaining bills now before Congress. The bills are H. R. 77, sponsored by Rep. Frank Thompson (D.-N. J.), and H. R. 1488, sponsored by Rep. Edward Roybal (D.-Calif.). Both measures include the right to strike if collective bargaining fails.

For a view of the public employee collective bargaining issue, NATION'S BUSINESS talked with Robert T.



The number of state and local public employees who joined in work stoppages averaged about 25,000 annually in the early 1950's. Last year, the number was 318,600. The 1975 walkouts resulted in a loss of 2.2 million workdays.

Thompson, a recognized expert in this field. Mr. Thompson, a senior partner in the law firm of Thompson, Ogletree, and Deakins, of Greenville, S. C., and Atlanta, Ga., has represented numerous public employers throughout the Southeast in employee disputes.

Thousands of state employees in Massachusetts recently went out on strike. How do you view this incident?

Although the strike itself lasted only three days, its impact on essential services to the commonwealth was severe. For example, tons of raw sewage were poured into Boston Harbor because a treatment plant did not have the staffing to operate properly. This is a vivid example of the damage that can result from a public sector strike. It also is a perfect illustration of what happens when you apply industry-style collective bargaining to the public sector, even with strong prohibitions against strikes.

Public employees cannot be permitted to disrupt the services of government by strikes or otherwise. By the very nature of their work, they hold a unique responsibility, and they should realize this when they accept the work. The taxpayers have a right to uninterrupted essential services paid for by their tax dollars.

Some contend that a federal law giving collective bargaining rights and the right to strike to state and local public employees would reduce public sector walkouts because it would give the employees more opportunity to be heard on their grievances. What do you think?

Laws do not solve all problems. A federal collective bargaining law would not necessarily reduce the number of strikes in the public sector. Newspaper headlines show that, when a public employee union wishes to strike, the union strikes, regardless of whether that is legal or not. Everywhere such laws have been enacted on the state level, there has been a substantial increase in strikes.

But a federal law would bring uniformity. Would that not lead to less strife?

No. The diversity of state laws and regulations dealing with public sector labor relations has not been shown to be a major problem.

Public sector labor relations are of such sensitivity to the locale involved that it is most important that state or local officials maintain control of them. It is the responsibility of these officials to direct their own work forces.

The superimposing of preemptive federal regulation on labor-management relations at the state and local government level would only add difficulties.

The American Federation of State, County, and Municipal Employees has proposed compulsory arbitration as an alternative to the right to strike for such public employees as policemen and firemen. Is such an alternative viable?

Compulsory arbitration in the public sector would only deliver control of government into the hands of the arbitrators, elected or nonelected.

This is not acceptable.

Compulsory arbitration by nonelected officials delivers power over government purse strings into the hands of people who have not been selected by the voters. Going the route of elected arbitrators simply substitutes one elected official for another in dealing with the labor relations problem. There is nothing wrong with designating a certain elected official or officials to take responsibility for labor relations in the public sector—provided control of the government is maintained in the hands of the electorate.

It should also be pointed out that arbitration of economic items, such as wages, seldom works unless the

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A: Trucks.

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employees find the result acceptable. Otherwise, they resort to the strike, and the whole concept of compulsory arbitration as a solution to labor problems in the public sector goes down the drain.

Should public employees be permitted to discuss their wages and working conditions with management?

Absolutely. However, the discussions should be conducted in a way that promotes labor peace and results in the most beneficial conclusion to all sides, including the public.

Instead of a collective bargaining mechanism, a system known as meet-and-confer provides an equitable discussion base for resolving conflicts on working conditions and benefits.

The meet-and-confer approach permits the employer or his representative to hold periodic discussions with employees or their representatives on matters of employment. The discussions are not binding on either party. They often result in a written memorandum of understanding.

What are the differences between collective bargaining and labor relations in the public and private sectors?

Briefly, the private employer has the authority when bargaining to speak for the business and to respond to economic demands in the context of an ability to produce on commitments and preserve the long-range health of the business.

Unions bargaining in the private sector must take into account the ability of the business to meet their demands and still succeed in the free marketplace.

Furthermore, and perhaps most important, collective bargaining as we know it in the private sector requires either the right to strike or compulsory arbitration to make it functional. Any experienced negotiator in the private sector will tell you this.

On the other hand, all decisions in the public sector bargaining process are political in nature because of who the employer is, who the employees serve, and the source of the employees' wages and benefits.

As I have already mentioned, the strike is not acceptable in public sector labor relations because essential services—which are the true basis of government—are disrupted. As I also have already mentioned, compulsory arbitration is unacceptable because of the power over the government that it gives to the arbitrators.

How does the budget-making process affect public sector negotiations?

A budget allocates money to be spent, and there is only so much money. Each state and locale has a tax base. The amount of income from taxes determines, in most part, how much can be spent. Negotiating under such a restriction results in the public employer having to look for higher and higher taxes as employee demands go up.

Is politics a major factor in public sector negotiations?

Often, government officials agree to a contract without giving serious consideration to how the payments are to be made over the coming years. The desire to end a strike or other labor conflict quickly leads to a feeling of "let the next administration worry about how the monetary demands are to be met."

It should be remembered also that politics can be a two-edged sword. I have never met a union official who advocated putting union demands to a referendum of the voters.

The Supreme Court, in June, handed down two decisions that reflect on the public employee labor relations issue. Can you comment on them?

The cases you refer to are Hortonville Joint School District No. 1 v. Hortonville Education Association and National League of Cities v. Usery. Both of these cases have far-reaching implications in the field of public employee labor relations.

First, the Hortonville decision upheld the ability of a school board to fire teachers striking illegally, even though the board was involved on one side of labor negotiations. The technical holding of the court was essentially that the due process clause of the Fourteenth Amendment did not guarantee that the decision to fire the teachers would be made or reviewed by anybody other than the school board. This case lends support to public management in its never-ending job to keep essential services flowing without intervention



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and to discipline those who violate the law.

The League of Cities case lends support to the basic proposition that certain day-to-day workings of state and local government, such as public sector labor-management relations, are state and local concerns and should be left to those who are most familiar with the problems involved. The court struck down a 1974 amendment to the Fair Labor Standards Act extending minimum wage and overtime coverage to state and local government employees.

This case raises serious questions as to the validity of other statutes covering public employment matters at the state and local level.

Furthermore, I can foresee this decision dealing a blow to final passage of any federal legislation bestowing collective bargaining rights, and the accompanying ability to strike, on public employees. I might add that the solicitor of the Department of Labor has indicated preliminary disagreement with the court's view.

Another important case recently decided by the Supreme Court, though not as well known as the Hortonville and League of Cities cases, is City of Charlotte v. Local 660.

In this case, the court held that Charlotte, N. C., did not violate the equal protection clause of the Fourteenth Amendment by denying the dues checkoff to the firemen's union, even though the city withholds funds from the paychecks of city employees for other purposes. In order to avoid the burden of withholding money for all persons or organizations that request a withholding, Charlotte has a policy of withholding only when all city or departmental employees are benefited. The court found that this policy is reasonable and thus satisfies the requirements of the equal protection clause.

Some people see special significance in what has been happening in San Francisco in the public employee labor relations sector. What is your assessment?

Through a referendum, the citizens of San Francisco in essence served notice on the board of supervisors to stop using a wage comparability formula that tied the pay of certain public employees, such as plumbers and electricians, to the pay rates of private sector craft unions in the city.

The board of supervisors listened to the voters, and this resulted in significant income reductions for the affected employees. Some 1,700 public employees then went on strike, but the strike was unsuccessful. The strikers were not able to gain a great deal of support.

This public attitude was a prime example of the citizen standing up and saying to striking public employees: "Enough." Outrageous demands for wage and extra benefits by public employee unions have drained the finances of many cities and exhausted the public patience. What happened in San Francisco was evidence of a growing taxpayers' revolt against arrogant, always-demanding public employee unions.

San Francisco's use of the referendum to help establish wage and extra benefit policies in the labor-management field may be the forerunner of nationwide acceptance of such public means of expression.

How important is the public employee bargaining issue to the nation's future?

The manner in which public employee labor relations develop from this point in our history forward will impact tremendously upon the direction our society will take. It could determine largely whether we will be able to maintain some semblance of the free enterprise system, whether in fact the system—economic and political—as we know it will be able to survive.

One thing is certain. No single answer is applicable to every situation in every state or locality.

This may be the wisdom of the Supreme Court decision in the League of Cities case.

Chief Justice Warren Burger has noted that, in this case, the court "took steps to arrest the denigration of states to a role comparable to the departments of France, governed entirely out of the national capital. Constant inroads on the powers of the states to manage their own affairs cannot fail to complicate our system and centralize more power in Washington." □

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needed for the freeway had been purchased by the state. At that point, environmentalists successfully brought suit to stop the project.

We now have a jungle of boarded-up, deteriorating houses; vacant lots; and general blight in the various communities along the route.

The judge has ordered an environmental study made, but, until he and he alone is satisfied, apparently nothing will be done.

RALPH A. HERBOLD
Purchasing Agent
Sanders Plumbing Co.
Lynwood, Calif.

Jefferson, Madison papers

I greatly appreciated the kind words about me in your introduction to the article, "If Jefferson and Hamilton Were Alive Today" [July], which included an interview with me about Thomas Jefferson.

I must point out, however, that I do not deserve the distinction of being identified as editor of the Jefferson and Madison papers. I have long been a member of the advisory boards of both of these enterprises, but my contribution to them has not been worth mentioning.

The Jefferson papers have been edited for many years by Julian P. Boyd of Princeton University. President James Madison's papers are now being edited by Robert A. Rutland, of the University of Virginia, and previously were edited by William T. Hutchinson, of the University of Chicago.

PROF. DUMAS MALONE
University of Virginia
Charlottesville, Va.

Why OSHA exists

Your "Letters to the Editor" [July] carried various comments critical of the Occupational Safety and Health Administration.

I meet many industrialists at various company levels in connection with my involvement in the sale of capital equipment.

A small percentage of these industrialists condone, even with today's controls, working conditions reminiscent of the early days of the industrial revolution. Without controls, they would be back to child labor and 12-hour days. Because of these Neanderthals, all of industry is saddled with OSHA, which is trying to do a job with what seem to be mainly untrained people working with regulations they do not understand.

As an alternative, maybe business could establish safety standards to be implemented through a national business organization.

Let's face it: The rank-and-file of the work force needs protection from government, business, and unions, because there are a few blackguards and chiselers in all three.

ALAN M. LAMBERT
President
Maxi Mill Inc.
Albany, Oregon

Hawaii's loss of seniority

Your article, "Why So Many Congressmen Are Calling It Quits" [June], was most interesting and informative.

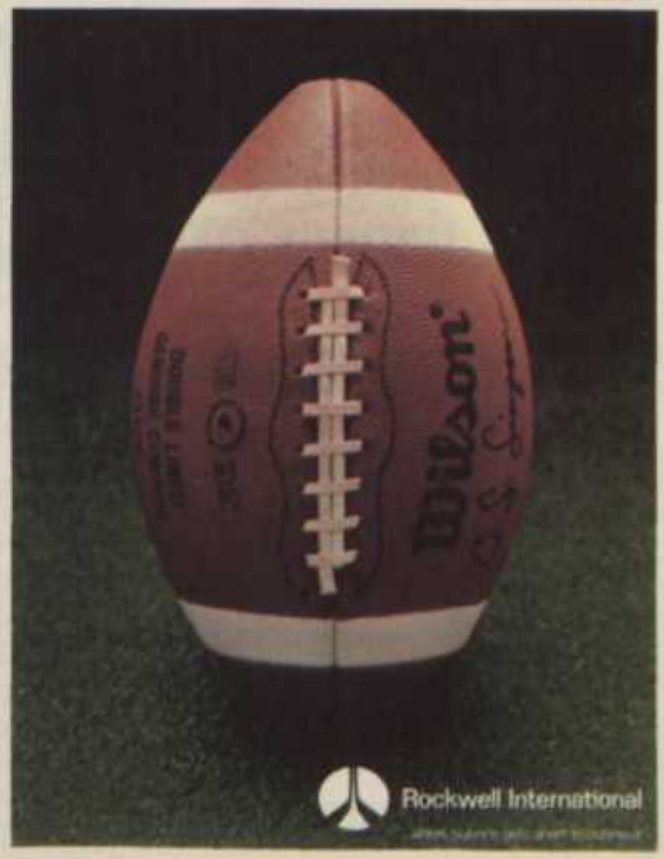
However, some of the mathematics is subject to challenge. You write that Missouri is losing a higher proportion of its delegation than any other state. Five of Missouri's ten representatives and one of its two senators are giving up their seats. That is a 50 percent loss in each chamber and for the delegation as a whole. But both of Hawaii's repre-

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sentatives and one of its senators are giving up their seats. This is a loss of 100 percent in the House and 50 percent in the Senate, for an overall delegation loss of 75 percent.

Even should one of Hawaii's House members be elected to the Senate, Hawaii starts the new session with as near to a total wipeout of seniority as any state has recently experienced.

NED W. BANDLER, JR.
Director, Corporate Development
Lever Brothers Co., Inc.
New York, N. Y.

Guiding principles

James J. Kilpatrick's "Guiding Principles for America's Third Century" [July] is one of the most outstanding and pertinent contributions of any kind, from any source, that I have encountered during this bicentennial year.

CARTER C. PARNELL, JR.
Senatobia, Miss.

Public accountants, too

Your "Executive Trends" column for July carried an item, "Getting an SBA Loan," in which it was stated: "You can get a lawyer or C. P. A. to help with the paperwork."

I take strong exception to the fact that you mentioned certified public accountants only and did not include public accountants. You are apparently unfamiliar with the laws concerning both types of accountants and are unaware that there are many well-qualified public accountants whose work is acceptable to the Small Business Administration.

Any organization, business, bank, or other interested party will accept a public accountant's work. Certified audits are not in any way restricted to certified public accountants.

In Ohio, public accountants have been accorded equal status with certified public accountants since 1959. Both must be licensed each year in order to practice. Both must adhere to the same code of ethics and auditing procedures of the American Institute of Certified Public Accountants.

Ohio and many other states have continuing education programs in accounting. Each public accountant and C. P. A. must have at least 120 hours' credit every three years to retain the right to practice.

KENNETH L. HAHN
Kenneth L. Hahn & James H. Garvey
Public Accountants
Columbus, Ohio

Fair treatment for all

Re "Bosses, Baboons, Brains, and the Bicentennial" [July].

How sad it is to realize that only 20 percent of the world's people now live in a free society. The question is: What can we, as businessmen and as individuals, do to protect our freedom? The answer is based on this truth: No free society can limit the rights of any person and continue to be free.

In our society, we, as individuals, must be sure all, especially minorities, are treated fairly in all ways.

This one step will help prevent world leadership from passing into new hands as well as ensure that we in America are able to have a tricentennial celebration.

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How a *"professional"* can benefit from incorporating.

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How to arrange for any stock sold to an investor in a corporation to be tax deductible.

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Learn why many "side" businesses and investments should be separately incorporated.

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The Role of Real Estate in Investment Planning

AN INTERVIEW WITH DR. ANTHONY DOWNS

Opportunities and pitfalls are evaluated by a leading expert

WHERE CAN an individual find a haven for investment money in this period of still-pervasive inflation, seesawing interest rates, and a nervously fluctuating stock market?

One possible answer: sound, well-located real estate.

Many investors tend to overlook the profit potential in ownership of real property because they consider the real estate market too complicated, or because they are uncertain about the best types of property to buy. Many, too, are wary because they have heard of people who have suffered losses from ill-considered real estate investments.

Yet real estate authorities can cite advantages in the ownership of income-producing property, including deductions on personal income taxes and a potential for long-term capital gains that are subject to less-than-ordinary income-tax rates. The record shows, too, that good real estate located in the path of growth outdistances the inflationary spiral.

For insights into the advantages and pitfalls of real estate as part of a personal investment program, NATION'S BUSINESS turned to one of the country's best-known experts in the property field.

Dr. Anthony Downs is chairman of Real Estate Research Corp., of Chicago, the nation's largest real estate consulting firm. He serves as a consultant on real estate matters to federal and other government agencies and to many private corporations. He holds a Ph. D. in economics from Stanford University, was on the faculty of the University of Chicago,



and has lectured at many other universities. He is the author of several books on housing and on urban problems.

Here, Dr. Downs provides views on the current outlook for the real estate market and offers suggestions on which types of property to consider, and which to avoid, in an individual investment plan.

Dr. Downs, is there a place for real estate in a typical personal investment program?

I would certainly say yes, though it is hard to lay down any one rule, because individual investment goals differ. Much depends on a person's age, financial position, and plans for the future.

If an investor is going to need his money in a hurry, he should not have most of it tied up in real estate.

On the other hand, if he has spare cash that he can commit for a period of years, owning real estate can provide a far better chance for capital gains than almost any other type of investment. In particular, the millions of people who have bought their homes over the years have found them about the most worthwhile asset they could hold in a period when inflation has been eating away at the value of the dollar.

Have prices kept ahead of inflation?

Generally, yes. The price of a typical new single-family home over the past decade has risen by more than 84 percent, according to Census Bureau figures. That is about 6.3 percent per year, compounded. Prices of existing homes have gone up nearly as much—or more in some areas. These have been far better records than price appreciation in the stock market over that same ten-year period.

But the homeowner usually thinks of his house as a place to live, not necessarily as an investment.

True, but sooner or later he or she may want to sell. When that day arrives, the extent to which real estate prices have moved up will become very clear.

Moreover, appreciation in real estate applies not only to people's

homes, but to other property, such as rental houses or apartments that they have bought for income. The record shows that, for the past ten years, established income properties have paid out substantially higher rates of cash flow, in relation to equity invested, than stocks have paid out in dividends.

Is real estate currently paying a better return than securities?

It depends on what type of real estate properties you are considering. Four basically different types of properties are experiencing different trends.

First are very large, well established income properties, such as big office buildings or major regional shopping centers. Prices on these properties are being bid up sharply by foreign investors and by our new commingled funds, pools of investment money which big banks have formed to help U. S. pension funds buy real estate equities. Consequently, cash-flow yields on these properties are being driven below yields on bonds. But, of course, bonds cannot help anyone hedge against inflation, since they pay fixed amounts.

A second type of property consists of large, brand-new projects that are not yet established, such as many condominium buildings or smaller shopping centers. Yields on these properties are still at least as high as those on most bonds, since these properties are very risky investments today.

Most individual investors are probably more interested in the third and fourth types: smaller income properties, such as small apartment buildings or stores, and vacant land.

Smaller income properties are so popular that their prices are also being bid up very rapidly, producing low current yields on equity comparable to those on stocks. But these properties also provide tax shelters for other income, raising their effective yields substantially, and many owners expect further inflation.

Vacant land is the riskiest investment of all and provides almost no tax shelter. But many Americans are buying it anyway, because land prices have often risen in the past.

What do you see happening to prices for new homes in the months just ahead?

BIG OFFICE BUILDINGS: Prices on many well-established properties are "being bid up sharply." Therefore, cash-flow yields "are being driven below yields on bonds."

I think they are going to continue to rise. The median price of a new single-family house as of last May was something over $46,000, up about 6.4 percent in a year.

The cost of land is not coming down. Neither are labor and construction costs in most parts of the country, despite high levels of unemployment in the building trades. Interest costs for mortgages are not likely to go down between now and the end of the year—they may even rise slightly. So, on balance, just about everything points to continued upward pressure on prices of new homes.

What about existing houses?

There should be a good demand for them at steadily rising prices, because housing markets in many communities are coming close to shortage conditions.

Suppose a newly married couple asked your advice about buying their first home—whether to go ahead now or hold off, hoping that home prices and mortgage rates might come down later. What would you tell them?

Chances are that the price of any home they might want to buy will be moving higher. They might save something by going into the market right away.

The outlook for interest rates is a bit more chancy. Interest is a key factor in the total amount of money they will be paying out over the life of a mortgage.

However, a recent set of figures from the U. S. Savings and Loan League suggests that it would not pay to wait very long if you are looking at property in an area where demand is strong.

The league's calculations get a bit complicated, but this is the way they work out:

Say the prevailing mortgage rate is nine percent and the price of a house is $50,000. A buyer would break even by waiting six months to go into the market if the mortgage interest rate came down to 8½ percent. But that would be true only if the house rose in price less than 3.7 percent during those six months. Since houses now generally are appreciating an average of ten percent or so a year—about five percent in six months—the young couple probably would lose more than they would gain by waiting for a lower interest rate. Furthermore, interest rates are more likely to rise than fall in the next six months, though they will not get much higher.

Do other types of real estate besides homes offer protection from inflation—and thus investment opportunities?

Yes, in varying degrees. People buy real estate, other than their own homes, for three reasons: to shelter other taxable income, to realize long-term capital gains, and to hedge against a rising price level.

Even though inflation has come down markedly from the double-digit levels of a year or so ago, it is a good bet that the value of the dollar is going to continue to be whittled down over the long run. So an investor who wants reliable, long-term protection against inflation should put some of his assets into real property which has the traits necessary to provide that protection.

What are those traits?

I would summarize them this way—

- Ability to renegotiate rents frequently—something best found in rental apartments without long-term leases or in retail facilities with percentage leases set so rents rise with sales.
- Ability of any barriers to rais-

ing rents or income, such as local rent control.

- Freedom from heavy dependence upon specific costs that are likely to rise rapidly—such as the use of imported fuel oil for heating, as in many northern properties.
- A sound location not likely to experience neighborhood deterioration or suffer from a weak local economy.
- An initial rent structure that is relatively low for its market area, providing room for increases in the near future.
- A current income cushion beyond the cost of debt service. This can help absorb possible unexpected increases in operating expenses without jeopardizing equity.

Let us say a family owns its own home and finds an opportunity to buy a house nearby that can be rented out for income. Do you consider that a logical type of investment?

Much depends on such things as location, condition of the property, and the asking price. By and large, I do not recommend single-family homes as good investments for producing month-to-month income. The main reason to buy a rental house is that you think it is a bargain on the present market—you think its price may rise enough so you can sell it for a capital gain.

Can the owner not get some tax shelter by deducting depreciation and other costs that can be charged off against total income?

Yes. But chances are he could get far better tax shelter from the purchase of a new apartment building than from the purchase of a rental house. He could deduct the interest on the money borrowed to construct a new building and then claim year-to-year depreciation on the property. That allows him to defer paying tax on much of the income and shift it from ordinary income tax rates to capital gains rates.

However, I should point out that the market for new apartments has suffered from overbuilding recently, so a person looking into such properties needs to be very careful.

Do you see a better potential in existing apartment buildings than in new ones?

Yes. For the first time since 1973, rents lately have been going up faster than expenses. The chief caution here is to avoid buying in a community where there is a threat of rent control. In the absence of rent control, well-located apartments can be a very good investment for most people, once they have purchased a home to live in.

Apartment properties are available in a wide range of sizes—everything from two or three units to much bigger buildings. That means an individual can tailor the size of his investment to the amount of cash he wants to commit. Owning an apartment building does not require as much expert knowledge as does ownership of industrial property, office buildings, or shopping centers. However, there is intensive buyer interest in small apartments in good locations, so prices are getting very high and yields are being pushed lower.

SMALL APARTMENT BUILDINGS: "Current yields on equity [are] comparable to those on stocks. But these properties also provide tax shelters...."

What do you see as the investment outlook for commercial and industrial property now?

Retail properties had the best record of survival and continued prosperity through the 1974-1975 depression in real estate development. But many smaller properties suitable to individual investors involve higher risks than large regional centers. Smaller tenants have suffered from the long-run diversion of business into larger stores and from short-run financing problems.

Nevertheless, total consumption will rise greatly in 1976 and 1977; so some retail opportunities will be worthwhile.

Office space is still in surplus in many areas, though spreading prosperity is stimulating the expansion of business firms, and that is soaking up more and more space. Yet office rents have to get very high to justify creating any more office space; so I do not believe much new space will be profitably built this year or even in 1977, outside of a few genuine boom areas like Houston.

Industrial space is also widely available now. However, demand for it should rise significantly in 1977 as the economy's expansion enters a more capital-investment-intensive phase. There will be more action in the leasing or purchasing of existing industrial space than the building of new space, even in 1977.

Hotels and motels are not the type of business that private investors should enter, except as stockholders. This business is too dominated by major chains, and even they are concerned by the obsolescence of many downtown hotels and older outlying motels. This type of property is highly labor-intensive, and wages probably will continue to rise faster than rents.

Are there investment opportunities in rehabilitating buildings in sound neighborhoods?

Yes. In a good many cities, residential patterns are changing, and young middle-income families with no school-age children are moving back into neighborhoods that had started to deteriorate but are now becoming fashionable.

However, the investor in such an area ought to be prepared to put in a lot of his own time if he expects to get a good return. Real estate always takes more personal involvement than owning stocks and some other investments. In what has become known as "rehab," the investor must usually be willing to act as his own contractor or spend the time closely supervising the contractor who does the job.

How do you feel about undeveloped land as an investment?

It is not high on my recommended

list, especially for beginners in real estate. Raw land always has been risky as an investment. On the net average, it does not yield anywhere near as satisfactory a return as many people seem to think, especially when interest yields on alternative investments are so high. There is no income from this sort of land, so you are hoping that urban developers will buy it and give you big capital gains.

SINGLE-FAMILY HOMES:
"I do not recommend single-family homes ...for producing month-to-month income. The main reason to buy a rental house is... capital gain."

With the high interest rates of recent years, the expense of holding land has gone up quite sharply. If you tie up your money in land, you are sacrificing a rate of interest that might run as high as ten percent a year from a good-grade corporate bond or a high-quality mortgage. The land would have to shoot up in price awfully fast to compensate you for tying up your money.

Meanwhile, the land is costing you taxes and perhaps some maintenance. Also, militant environmentalists often pose problems for owners of land held for development. Current anti-growth attitudes have lengthened the time required to develop raw land, thus reducing returns on it.

What about farm property?

From 1950 to 1960, the average price of farmland in the U. S. per acre, including improvements, rose 5.4 percent per year, compounded. From 1960 to 1970, it went up 5.6 percent per year.

Those are not very high rates of appreciation—but the situation changed dramatically after 1970. From 1970 to 1975, the average price increased at a rate of 12.8 percent per year—considerably faster than most other investments, even in real estate.

This rapid rise in value was related to worldwide crop failures in 1973 and the increasing importance of U. S. agricultural exports in world markets.

But not all farm property has appreciated at the same speed. For example, in those same five years, the average price of farmland went up 18.8 percent per year in West Virginia, but only 6.3 percent per year in California. Thus, it is not easy to pick out those particular farms that will rise in value enough to justify this type of investment. Farmland prices in areas close to large metropolitan population centers have already been driven up much higher than can be justified by even optimistic projections of future farm income.

Farm prices will probably not rise as rapidly in the next five years as they did in the first half of the 1970's. Nevertheless, selective farm investments in some areas could be profitable.

Picking the right spots requires specialized expertise; so buying farmland is probably not the best way for novices to begin their real estate investment careers.

Is there a chance to make money from an investment in recreation property or resort housing?

I think prices on such property will rise more slowly in years just ahead than at times in the past.

Activity in this market was hit by two adverse developments in the early 1970's. First came the oil embargo and the energy shortage, which tended to discourage the use of resort property requiring a long auto trip from home. Then came the recession of 1974 and 1975, which put a crimp in the market for recreation property. Actually, the purchase of this type of property is prime evidence of prosperity. I do not think there has been much new building in this category this year.

As for existing resort property, many people have the fantasy that such accommodations offer them both shelter and security—a good place to hole up if things go awry in the city.

As long as that attitude prevails, the price of existing resort homes probably will remain fairly firm, especially those not far from big cities. Generally, though, my advice would be to buy a vacation home because you want to use it and enjoy it. If you can sell it later at a profit, that is all to the good.

People often get tempting letters or brochures urging them to buy vacation and retirement land on the installment plan. What is your advice on that score?

No one should buy property of any kind without visiting it and inspecting it firsthand. The individual who plunks down money for a mountain or desert lot in the West, or a so-called waterfront lot in Florida or elsewhere, on the strength of a sales pitch by mail, is just asking for trouble. In the past two or three years, federal regulators have suspended sales in more than 250 land developments and obtained more than $4 million in refunds for disappointed buyers.

Second, the chances are almost nonexistent that a person can make money by selling land he has bought in a recreational development. Most high-pressure developers will not buy

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back the property they are pushing. Many people who have gotten stuck with undesirable lots in places far from their homes find the resale value is nil. Do not buy such land as a pure investment.

Assuming an individual concentrates on sound, well-located property, which parts of the country offer the best opportunities for real estate investing?

You can get some clues from reports from the Bureau of the Census. Its figures show that the so-called sun belt is by far the fastest-growing area. That includes the southeastern and south central states, and Texas and the Southwest.

The Northeast and the Middle West are not growing so rapidly. They are not falling in population, but neither are they showing much gain. California's rate of growth has slowed considerably. All in all, the sun belt is the area in greatest favor, if you consider rapid growth as the key to the best real estate opportunities. But since most investors know this, competition for the supply has grown rapidly in these areas, too.

This is an election year. Has anything happened so far on the political front that has broad implications for real estate investment?

Well, for one thing, since 1952, presidential election years have all been years of increasing prosperity—except for 1960. This year fits that pattern, and that means rising demand for the kinds of services produced by all types of real property.

At the same time, if we consider this year's likely five percent to six percent inflation rate as probably the lowest in the current business cycle, it appears that investors will continue to search for some type of hedge against inflation. I believe that indicates continued strong interest in buying well-established income-producing real estate. As a result, the price of such real estate will be driven up.

Political considerations tend to reinforce my basic belief that real estate can play an effective role as at least part of most investors' overall portfolios. □

REPRINTS *of this article are available from Nation's Business. See page 72 for details.*

By VERNON LOUVIERE
Senior Editor

New Knowledge Aids Great Lakes Economy

MAN HAS LEARNED to tame Mother Nature's wintry assaults on the Great Lakes in a way that is proving of great benefit to the economy of the upper Middle West and is expected to be of even greater benefit in the future.

Until a few years ago, practically all shipping on the lakes was suspended from mid-December until early April because of ice that sometimes is several feet thick. The economic loss to the region was sizable.

Bulk commodities such as iron ore, coal, stone, and grain had to be stockpiled during the winter at huge expense. Thousands of seamen were laid off as their ships went out of service. Fuel consumption soared because those cargoes that were moved had to be diverted to other forms of transportation that consume more energy.

Now, all that is changing.

In a U. S. Army Corps of Engineers research project, new techniques have been developed for lessening the impact of subzero weather that annually paralyzes shipping in the Great Lakes-St. Lawrence Seaway System.

Engineers have devised underwater bubbling equipment that minimizes ice formation in channels and around locks. Ice booms—sections of timber chained end to end—are used to stabilize ice so that shipping lanes are not jammed. In some instances, waste heat from power plants has been found effective in controlling ice hazards. Engineers have experimented with placing magnetic wire along the bottom of channels, allowing vessels to precisely follow assigned courses.

The Corps of Engineers project began in 1970. The 1971-72 shipping season on the upper Great Lakes was extended from mid-December to Feb. 1, permitting shipment of 3.1 million more tons of cargo. Tonnage increased in the following two winters. Last winter, the volume of additional cargo rose to 15 million tons.

Winter's effects on navigation are particularly severe in the St. Lawrence River, but engineers are now convinced that even the river can be kept open all year. This would allow uninterrupted commerce between the Great Lakes and the world outside.

An estimated 42,000 jobs and $382 million in new payrolls could be generated in the Great Lakes part of the system by 1980 if uninterrupted navigation is achieved.

Since large cargoes can be moved over the water with minimal fuel consumption, the energy-saving potential is impressive, too.

Large Great Lakes bulk carriers average 500 ton miles per gallon of fuel. This compares with 200 ton miles per gallon for railroads, 60 for trucks, and less than four for planes.

Army engineers estimate that the increased navigation achieved so far returns $7 for each dollar spent. •



The Great Lakes are being opened to year-round navigation as ways are sought to conquer winter on the St. Lawrence.

An Executive Spreads the Word About Taxes

If the employees and stockholders of Bliss & Laughlin Industries do not know how hard they are being hit by taxes, it is not because they aren't being educated on the subject.

E. T. Collinsworth, Jr., president and chief executive officer of the Oak Brook, Ill., manufacturer of industrial and consumer products, regularly keeps his employees and stockholders posted on issues which affect their pocketbooks.

A few weeks before the last federal income tax filing deadline, for example, he sent all Bliss & Laughlin employees a letter asking: "Are you getting your money's worth?" En-

closed was a simple form on which workers could figure out the total of what they pay in taxes and how much they have left.

After filling out the form, employees might feel their tax load is too heavy, Mr. Collinsworth said. If so, he suggested, they might want to write to their state and federal political representatives and complain.

More recently, all Bliss & Laughlin shareholders received a Collinsworth letter reminding them that federal taxes on dividends "may not only be discriminating against your investment decisions, but may also make you question the real value of investing."

Mr. Collinsworth was referring to the fact that corporate profits are doubly taxed—when the corporation earns them and when portions of them are paid as dividends.

"This double taxation serves to reduce investor incentives to invest in corporations the funds needed to expand production capacity and replace outmoded facilities," he wrote. "Undoubtedly, the greatest loss from this regressive tax policy is to the American consumer. Without capital, production cannot increase to keep pace with needs, and the price of products will surely rise. The best way to fight inflation is . . . to efficiently produce more."

Mr. Collinsworth says he believes the chief executive of a corporation has a responsibility to keep both his shareholders and his employees acquainted with all issues that may affect their economic well-being.

Speaking specifically of employees, he says that he hopes they will make their own decisions on the issues and then communicate their thinking to their political representatives.

Mr. Collinsworth adds: "I have great faith in the basic intelligence of the average working citizen." •

Combining Love of Art and the Profit Motive

"Open your galleries of art to the people, and you confer on them a greater benefit than mere book education. . . ."—CHARLES B. FAIRBANKS (1827-1859).

As far as Shannon Kelley Clark is concerned, the benefit from art can include financial gains.

Mrs. Clark, an owner of art galleries in New Orleans and Blowing Rock, N. C., emphasizes in sales promotions that buying good paintings by established artists often can be a better investment than putting money into the stock market or real estate.

Similarly, she points out that art collectors can enjoy tax advantages by donating art to public galleries or other public institutions.

"Charitable giving preserves the work of art for the public and posterity," says Mrs. Clark. "This is the reason for the provision in the tax laws in the first place."

Mrs. Clark and a partner, Marjorie Hugo, a trained mathematician who was a Women's Air Force officer in World War II, opened the gallery in Blowing Rock in 1968 and the New Orleans gallery last year.

This is the fourth venture into the business world for Mrs. Clark, widow of the World War II naval hero, Admiral J. J. (Jocko) Clark. As a young graduate of the University of Texas, she went to work for a real estate title search office owned by Texas Rep. John Nance Garner, who later became Vice President. On the advice of John Garner's son, Tully, she began investing in citrus land in the Lower Rio Grande Valley. She accumulated a small fortune, retired, and toured the country for three years.

The Depression hit, and Shannon Kelley took a job with a group of bondholders' representatives. She learned the bond trading business and struck out on her own. Although the country was deep in financial trouble, she was able to make what she says was a "considerable amount of money." Later, she bought controlling interest in a small Texas bank and became its president. After a few years, she sold the bank, again turning a profit.

In 1946, Shannon Kelley married Admiral Clark, and they spent the next several years in the Mediterranean area, where he commanded a carrier division. Her interest in art heightened as she visited the great museums of Europe and the homes of prominent art collectors.

"I suppose it was inevitable that I would combine my love of business with my love of art," Mrs. Clark says. "Because of my business background, involving investments, I see the great value of fine art as an investment."

For Mrs. Clark, art collecting is both vocation and avocation. As she says: "If I had any other hobby, I would have to sandwich it in between 2 and 5 a.m." □



Mrs. Shannon Clark, shown with one of her favorite paintings, says investing in art can be more profitable than putting funds into stocks or real estate.

5 Questions about Canada



1. **Is Canada the first, second or third largest trading partner of the U.S.?**
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2. **Can you name its largest freight transportation system?**
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3. **Which East Coast Canadian ports are hundreds of miles closer to northwestern Europe than New York or Baltimore?**
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4. **Now how about Canada's West Coast port that's well situated for Japan?**
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By GROVER HEIMAN, Associate Editor

BUSINESS: A LOOK AHEAD

HEW Will Give Public More of a Chance to Be Heard

The Department of Health, Education, and Welfare is adopting a new way of developing and issuing regulations—it is going to make a strong effort to get opinions from the public at the outset.

Standard operating procedure in Washington is for a government agency to consult with groups having a special interest in a regulatory matter and then to draft a proposed rule. This proposal is published in the "Federal Register," and written comments are solicited for a period that typically is 30 days. Ostensibly, the written comments are considered in determining whether to make revisions in the proposed rule. Then, revised or not, the rule is published in the "Register" again, this time as the final rule.

Since only a small fraction of the general public reads the "Federal Register," HEW Secretary David Mathews plans to communicate with the public through town hall-type meetings, professional and service organizations, paid and unpaid advertisements, news releases, and mailings, as well as the "Register."

Through these various avenues of communication, HEW will issue a notice of its intent to put a new regulation into effect.

The notice will define the options and invite comment. Based on the response, the department will then draft a proposed rule and entertain a second round of public comment. HEW says it will consider all views before writing the final regulation.

Bill Aims at Curbing Rises in Federal Personnel Costs

With a pay increase of five percent or more expected for federal employees this fall, Sen. Lloyd Bentsen (D.-Texas) has introduced a bill designed to moderate future rises in government personnel costs.

His proposal, S. 3603, The Government Reduction and Control Act of 1976, would put pressure on both Congress and the executive branch to control the expansion of government agencies and the creation of new ones.

The executive branch would be required to have each existing agency fashion a plan which would bring a reduction of its staff.

Also, there is a novel requirement for both Congress and the White House. Sen. Bentsen wants any proposal for a new program submitted by either the President or a congressional committee to be accompanied by a statement on how many employees would be needed and an estimate of the personnel cost.

Sen. Bentsen says that Congress "can no longer tolerate requests for personnel from government agencies because they have been assigned new tasks" unless there is assurance "that all their current employees are being fully utilized."

Freedom of Choice on Unions Asked for Working Students

A move is on to give jobholding college, vocational, and secondary school students exemption from compulsory payment of union dues.

In answer to protests from such students, a bill that would give students freedom of choice on unionism has been introduced in the Senate by Sen. Paul J. Fannin (R.-Ariz.) and six other Republican senators.

S. 3595 would amend the National Labor Relations Act for workers enrolled full-time in educational programs. The bill would make compulsory unionism unlawful for such students but would not bar their voluntarily joining unions or paying dues without joining.

Sen. Fannin notes that many students now are forced to pay full initiation fees and dues, in lieu of union membership, in order to keep summer or part-time jobs. In many instances, the students cannot participate in benefits, such as health insurance, sick pay, and union-negotiated wage increases, which the compulsory dues are supposed to be used in obtaining.

Small Firms Get a Break, of Sorts, on Paperwork

Small businesses, by far the largest employers of the nation's teenagers, have been spared one scheduled further onslaught of federal paperwork.

After a flood of complaints, the Labor Department has backed down on a proposal to require employers to obtain written proof of age. Employers will, however, have to maintain a record of the ages of minor employees. And anyone who employs a youngster illegally is still liable for the law violation.

"It is in an employer's best interest to ensure that a minor is not under the legal age limit to perform a given job," warns Ronald J. James, administrator of the Employment Standards Administration's Wage and Hour Division.

The Labor Department agency says employers should protect themselves by obtaining a federal or state work certificate in cases where the minor claims to be only one or two years over the applicable minimum age (generally 16).

It is also advisable to obtain such certificates in cases where youngsters claim to be older than that, but where physical appearance makes the claims questionable, the agency says. The agency does not offer a height, weight, and measurement guide.

SEC Wants Stock Exchanges to Require Outside Auditors

The Securities and Exchange Commission wants the nation's stock exchanges to consider changing listing policies to require tighter auditing procedures for corporations.

For years, SEC has advocated that publicly held companies create audit committees, manned by independent directors, to work with outside auditors. Now, it hopes the stock exchanges will carry the ball.

In a letter to William M. Batten, chairman and chief executive officer of the New York Stock Exchange, SEC Chairman Roderick M. Hills noted that "misleading financial records" have been used to conceal "questionable foreign and domestic payments" by some corporations. He indicated that audit committees composed of outside directors would be valuable in blocking such dubious conduct.

An NYSE revision of listing policies would be a practical means of gaining more effective auditing without increasing direct government regulation, Mr. Hills wrote. SEC surveys indicate that as many as two thirds of NYSE-listed companies already have independent audit committees.

Reportedly, the New York Stock Exchange is considering the SEC chairman's suggestion and will give its verdict fairly soon. If NYSE agrees with Mr. Hills, the other exchanges probably would fall in line.

OSHA Is Taken Aback by Furor Over Farm Worker Proposal

It will be many months, maybe years, before the Occupational Safety and Health Administration issues a final standard specifying what sanitary facilities farmers must provide for field workers.

At the end of April, OSHA published a proposed standard. Irate responses from the public and Congress inundated the agency. As a result, OSHA extended the period during which it would accept written comments and further indicated that it would hold informal public hearings around the nation before offering an amended proposed rule.

The part of the proposal that prompted the most acid replies was a requirement that toilet and handwashing facilities be provided for every 40 employees within a five-minute walk from their place of work in the field.

OSHA advised at that time that the proposed standard was based substantially on recommendations of its Standards Advisory Committee on Agriculture and that ratios, distances, and other factors were based on the California Health and Administrative Codes.

The public furor has made it clear to the agency that it is going to be impossible to have one standard that applies to all types of agricultural field operations.

Slimmer Price Rise Seen for Farmland This Year

The price of farm acreage, which rose an average of 14 percent during the year ending last Feb. 1, is expected to rise from eight to ten percent in the year ending Feb. 1, 1977.

According to the Agriculture Department, the price of acreage across the nation has doubled in the past five years.

In the year ending last Feb. 1, the largest leaps came in Iowa and Nebraska, where landowners willing to sell were able to get 26 percent more than in the previous year. By region, the corn belt and northern plains states led in the increases. Farmland values in the West, Northeast, and Southeast rose least.

In Georgia, there was no increase in land values. In Mississippi, the average price rose one percent. Other states where farmland's price performance was comparatively poor were Nevada, where the average increase was two percent; Arizona, three percent; and California, four percent.

New Jersey topped the list of states with expensive farmland—$2,852 per acre, on average—followed by Connecticut, $1,857. Farmland was least expensive in New Mexico—$72 per acre, on average—and Wyoming, $89. □

EDITORIAL

A Vivid Example of Regulatory Overkill

FATHER-SON or mother-daughter dinners could be forbidden at practically all of America's public schools as a result of a decision in Washington.

The Office for Civil Rights at the Department of Health, Education, and Welfare has ruled that such activities violate a 1972 law prohibiting discrimination on the basis of sex in educational institutions that receive federal money.

To many businessmen who decry the increasing federal intrusion into so many areas of American life, it might seem that no good could come from such a ruling.

But, in a way, the HEW officials have performed a service to the business community. They have given grass-roots America a vivid example of what business means by regulatory overkill.

Many educators, parents, and students were amazed to find that the heavy hand of the Washington bureaucracy could reach into such areas as invitations to an activity at a local school.

President Ford, saying he was shocked at the ruling, suspended it and ordered an HEW review to determine whether it was a proper interpretation of the law.

The ruling is not without supporters. They note with approval, for example, one point made by the HEW Office for Civil Rights—the ruling would make it no longer possible to bar a boy without an available father from a father-son dinner or a girl without an available mother from a mother-daughter dinner.

However, the principal issue is whether the subject is one for federal regulation at all.

Business leaders have warned for years that government regulators tend to lose perspective on where the regulatory line should be drawn.

The HEW ruling should win more people over to the business viewpoint that Congress, in the national interest, must curb the federal regulators. □

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